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

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2011

or

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

Commission File Number: 000-29959

Pain Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**91-1911336**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

2211 Bridgepointe Parkway
Suite 500
San Mateo, CA 94404
(650) 624-8200
(Address, including zip code, of registrant's principal executive offices and telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]
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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.001 par value	44,015,538 Shares Outstanding as of April 18, 2011

PAIN THERAPEUTICS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

PAIN THERAPEUTICS, INC.

Condensed Balance Sheets
(Unaudited)
(in thousands)

	March 31, 2011	December 31, 2010[1]
Current assets		
Cash and cash equivalents	$ 54,894	$ 4,798
Marketable securities	43,583	86,428
Receivables	1,996	7,114
Other current assets	84	144
Total current assets	100,557	98,484
Non-current assets		
Property and equipment, net	232	285
Other assets	437	426
Total assets	$ 101,226	$ 99,195
Current liabilities		
Accounts payable	$ 436	$ 1,107
Accrued development expense	435	258
Deferred program fee revenue - current portion	10,897	10,897
Accrued compensation and benefits	1,500	1,712
Other accrued liabilities	93	97
Total current liabilities	13,361	14,071
Non-current liabilities		
Deferred program fee revenue - non-current portion	49,036	51,760
Other liabilities	432	431
Total liabilities	62,829	66,262
Commitments and contingencies		
Stockholders' equity		
Preferred stock	-	-
Common stock	44	43
Additional paid-in-capital	167,684	161,957
Accumulated other comprehensive income	468	525
Accumulated deficit	(129,799)	(129,592)
Total stockholders' equity	38,397	32,933
Total liabilities and stockholders' equity	$ 101,226	$ 99,195

(1) Derived from the Company's audited financial statements as of December 31, 2010, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

See accompanying notes to condensed financial statements.

PAIN THERAPEUTICS, INC.

Condensed Statements of Operations
(Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2011	2010
Revenue		
Program fee revenue	$ 2,724	$ 2,524
Collaboration revenue	512	725
Total revenue	3,236	3,249
Operating expenses		
Research and development	2,178	3,127
General and administrative	1,537	1,486
Total operating expenses	3,715	4,613
Operating loss	(479)	(1,364)
Interest income	272	344
Net loss	$ (207)	$ (1,020)
Net loss per share		
Basic and diluted	$ (0.00)	$ (0.02)
Weighted-average shares used in computing net loss per share		
Basic and diluted	43,124	42,410

See accompanying notes to condensed financial statements.

PAIN THERAPEUTICS, INC.

Condensed Statements of Cash Flows
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2011	2010
Cash flows provided by (used in) operating activities:		
Net loss	$ (207)	$ (1,020)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash stock based compensation	1,303	1,418
Depreciation and amortization	53	60
Non-cash net interest income	386	731
Program fee revenue	(2,724)	(2,524)
Changes in operating assets and liabilities:		
Receivables	5,118	215
Other current assets	60	316
Other assets	(11)	1,578
Accounts payable	(671)	(832)
Accrued development expense	177	(453)
Other accrued liabilities	(3)	(188)
Accrued compensation and benefits	(212)	(95)
Net cash provided by (used in) operating activities	3,269	(794)
Cash flows provided by investing activities:		
Purchases of marketable securities	-	(18,677)
Maturities of marketable securities	42,402	33,351
Net cash provided by investing activities	42,402	14,674
Cash flows provided by financing activities:		
Proceeds from exercise of common stock options	4,425	983
Net cash provided by financing activities	4,425	983
Net increase in cash and cash equivalents	50,096	14,863
Cash and cash equivalents at beginning of the period	4,798	35,794
Cash and cash equivalents at end of the period	$ 54,894	$ 50,657

See accompanying notes to condensed financial statements.

PAIN THERAPEUTICS, INC.

Notes to Condensed Financial Statements
(Unaudited)

Note 1. General

We are a biopharmaceutical company that develops novel drugs. Our lead drug candidate is called REMOXY. REMOXY is a strong painkiller with a unique formulation designed to reduce potential risks of unintended use. REMOXY and three other abuse-resistant painkillers are being developed pursuant to our collaboration and license agreements with King Pharmaceuticals, Inc., or the King Agreements.

We are also developing novel drug candidates in the area of hematology and oncology. We have in pre-clinical development a drug candidate to treat hemophilia, a genetic disorder in which patients are unable to stop bleeding. We have in clinical development a monoclonal antibody to treat metastatic melanoma, a deadly form of skin cancer.

Although we were profitable in the past based on program fee revenue, milestone revenue and interest income, in the course of our development activities, we have sustained significant cumulative operating losses. As we continue to incur losses, we may need additional financing and there are no assurances that additional financing will be available on favorable terms, or at all.

We have prepared the accompanying unaudited condensed financial statements of Pain Therapeutics, Inc. in accordance with generally accepted accounting principles for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the year 2011.

We have evaluated subsequent events through the date of the filing this Form 10-Q with the Securities and Exchange Commission. No material subsequent events have occurred that require recognition or disclosure in these financial statements.

Note 2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue

earned and expenses incurred during the reporting period. Actual results could differ from those estimates.

Revenue Recognition and Deferred Program Fee Revenue

Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collection is reasonably assured.

We recognize program fee revenue, collaboration revenue and milestone revenue in connection with the King Agreements. Program fee revenue is derived from program fee payments, including the upfront $150.0 million payment we received in 2005 and the $5.0 million payment we received in 2010. These payments are recognized from receipt ratably over our estimate of the development period through the fourth of four drug candidates expected to be developed. We currently estimate the development period for all four drug candidates to end by September 30, 2016. We periodically review the estimated development period and change it if appropriate based upon our latest expectations. Deferred program fee revenue represents the amount of the upfront program fee payments that have not yet been recognized as revenue.

Collaboration revenue from reimbursement of development expenses are generally recognized after expenses have been incurred and when King has completed its review of the expenses invoiced to them.

We recognize milestone payments as revenue when we achieve the underlying developmental milestone as the milestone payments are not dependent upon any other future activities or achievement of any other future milestones and the achievement of each of the developmental milestones were substantively at risk and contingent at the effective date of the collaboration. Substantial effort is involved in achieving each of the developmental milestones. These milestones represent the culmination of discrete earnings processes and the amount of each milestone payment is reasonable in relation with the level of effort associated with the achievement of the milestone. Each milestone payment is non-refundable and non-creditable when made. The ongoing research and development services we provide are priced at fair value based upon the reimbursement of expenses we incur.

Cash, Cash Equivalents and Concentration of Credit Risk

We consider all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of cash maintained at two financial institutions and in money market funds. We believe the financial risks associated with these instruments are minimal. We have not experienced material losses from our investments in these securities.

Marketable Securities and Fair Value Measurements

We invest in interest-bearing marketable securities, generally consisting of corporate and government securities. We may elect to sell these investments before they mature. Therefore, we hold these investments as “available for sale” and include these investments in our balance sheets as current assets, even though the contractual maturity of a particular investment may be beyond

one year. We report our marketable securities at fair value, which may include unrealized gains and losses. Our unrealized gains and losses on investments are recorded as a separate component of stockholders' equity as accumulated other comprehensive income or loss. We recognize all realized gains and losses on sales of our marketable securities in interest income in the accompanying statement of operations on a specific identification basis. Our marketable securities are maintained at two financial institutions and are governed by our investment policy as approved by our Board of Directors.

To date we have not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value. We would recognize an impairment charge when the decline in the estimated fair value of a marketable security below the amortized cost is determined to be other-than-temporary. We consider various factors in determining whether to recognize an impairment charge, including the duration of time and the severity to which the fair value has been less than our amortized cost, any adverse changes in the investees' financial condition and our intent to sell or whether it is more likely than not that we would be required to sell the marketable security before its anticipated recovery.

We measure our cash equivalents and marketable securities at fair value on a recurring basis and have significant observable inputs where there are identical or comparable assets in the market to use in establishing our fair value measurements. We use significant observable inputs that include but are not limited to benchmark yields, reported trades, broker/dealer quotes and issuer spreads. We consider available information regarding our cash, cash equivalents, money market funds and US government obligations to be Level 1 inputs. Generally, the types of instruments we invest in are not traded on a market such as the NASDAQ Global Market, which we would consider to be Level 1 inputs. We generally consider available information regarding our other marketable securities to be Level 2 inputs. We do not have any investments that would require inputs considered to be Level 3. We use the bid price to establish fair value.

Stock-based Compensation

We recognize expense in the statement of operations for the fair value of all share-based payments, including grants of employee stock options and other share based awards. For stock options, we use the Black-Scholes option valuation model and the single-option award approach and straight-line attribution method. Using this approach, the compensation cost is amortized on a straight-line basis over the vesting period of each respective stock option, generally four years. We estimate forfeitures and adjust this estimate periodically based on the extent to which future actual forfeitures differ, or are expected to differ, from such estimates.

We have granted share-based awards that vest upon achievement of certain performance criteria, or Performance Awards. The value of these awards is the product of the number of shares of our common stock to be issued under the award multiplied by the fair market value of a share of our common stock on the date of grant. These awards include future performance conditions. We estimate an implicit service period for achieving these performance conditions. Performance Awards vest and common stock is issued on achieving performance conditions. We recognize stock-based compensation expense for Performance Awards when we conclude that achieving a performance condition is probable. We periodically review and update as appropriate our estimates of the implicit service periods and the likelihood of achieving the performance conditions.

Net Loss per Share

Basic net loss per share is computed on the basis of the weighted-average number of common shares outstanding for the reporting period. Diluted net loss per share is computed on the basis of the weighted-average number of common shares outstanding plus dilutive potential common shares outstanding using the treasury-stock method. Potential dilutive common shares consist of outstanding stock options, restricted stock units and warrants.

The numerators and denominators in the calculation of basic and diluted net loss per share were as follows (in thousands except per share data):

	Three Months Ended March 31,	
	2011	**2010**
Numerators:		
Net loss	$ (207)	$ (1,020)
Denominators:		
Weighted average shares used to compute basic and diluted net loss per share	43,124	42,410
Basic and diluted net loss per share	$ (0.00)	$ (0.02)

Options to purchase 3.7 million and 10.4 million common shares were excluded from the calculation of diluted loss per share for the three months ended March 31, 2011 and 2010 because the effect of including these shares in this calculation would be anti-dilutive.

Income Taxes

We make estimates and judgments in determining the need for a provision for income taxes, including the estimation of our taxable income or loss for each full fiscal year. We have accumulated significant deferred tax assets. Deferred income taxes reflect the tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings. We are uncertain about the timing and amount of any future earnings. Accordingly, we offset these net deferred tax assets with a valuation allowance. We may in the future determine that more of our deferred tax assets will likely be realized, in which case we will reduce our valuation allowance in the quarter in which such determination is made. If the valuation allowance is reduced, we may recognize a benefit from income taxes in our statement of operations in that period. We classify interest recognized pursuant to our deferred tax assets as interest expense, when appropriate.

Note 3. Cash, Cash Equivalents and Marketable Securities

The following tables summarize our cash, cash equivalents and available-for-sale marketable securities as of March 31, 2011 and December 31, 2010 (in thousands):

	Cash, Cash Equivalents and Marketable Securities					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Accrued Interest	Total Value
March 31, 2011						
Cash and cash equivalents	$ 14,842	$ 2	$ -	$ 14,844	$ -	$ 14,844
Money market securities	40,050	-	-	40,050	-	40,050
Corporate securities	32,441	466	-	32,907	498	33,405
Certificates of deposit	10,132	-	-	10,132	46	10,178
	$ 97,465	$ 468	$ -	$ 97,933	$ 544	$ 98,477
Reported as:						
Cash and cash equivalents	$ 54,892	$ 2	$ -	$ 54,894	$ -	$ 54,894
Short term investments	42,573	466	-	43,039	544	43,583
	$ 97,465	$ 468	$ -	$ 97,933	$ 544	$ 98,477
Maturities:						
Matures in one year or less	$ 80,235	$ 127	$ -	$ 80,362	$ 331	$ 80,693
Matures one to three years	17,230	341	-	17,571	213	17,784
	$ 97,465	$ 468	$ -	$ 97,933	$ 544	$ 98,477
December 31, 2010						
Cash and cash equivalents	$ 4,798	$ -	$ -	$ 4,798	$ -	$ 4,798
Certificates of deposit	10,131	-	-	10,131	31	10,162
Corporate securities	75,063	525	-	75,588	678	76,266
	$ 89,992	$ 525	$ -	$ 90,517	$ 709	$ 91,226
Reported as:						
Cash and cash equivalents	$ 4,798	$ -	$ -	$ 4,798	$ -	$ 4,798
Marketable securities	85,194	525	-	85,719	709	86,428
	$ 89,992	$ 525	$ -	$ 90,517	$ 709	$ 91,226
Maturities:						
Matures in one year or less	$ 67,557	$ 106	$ -	$ 67,663	433	$ 68,096
Matures one to three years	22,435	419	-	22,854	276	23,130
	$ 89,992	$ 525	$ -	$ 90,517	$ 709	$ 91,226

We did not realize any gains or losses on our investments in securities during the first quarter of 2011 or 2010. To date we have not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

The following table presents our assets measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
March 31, 2011				
Cash and cash equivalents	$ 14,844	$ -	$ -	$ 14,844
Money market securities	40,050	-	-	40,050
Corporate securities	-	33,405	-	33,405
Certificates of deposit	10,178	-	-	10,178
	$ 65,072	$ 33,405	$ -	$ 98,477

	Level 1	Level 2	Level 3	Total
December 31, 2010				
Cash and cash equivalents	$ 4,798	$ -	$ -	$ 4,798
Corporate securities	-	76,266	-	76,266
Certificates of deposit	10,162	-	-	10,162
	$ 14,960	$ 76,266	$ -	$ 91,226

Note 4. Comprehensive Loss

Comprehensive loss is the sum of net loss and other comprehensive income (loss), as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Net loss	$ (207)	$ (1,020)
Other comprehensive income (loss)	(57)	317
Comprehensive loss	$ (264)	$ (703)

Other comprehensive income (loss) consists of net unrealized holding gains and losses on available-for-sale securities.

Note 5. Stock-Based Compensation

Our non-cash stock-based compensation expense is as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Research and development	$ 732	$ 842
General and administrative	571	576
	$ 1,303	$ 1,418

Note 6. Income Taxes

We did not provide for income taxes in 2011 because we have projected a tax loss for the full year 2011. Interest expense and penalties related to unrecognized tax benefits were immaterial for 2011 and 2010.

Note 7. Commitments

We conduct our product research and development programs through a combination of internal and collaborative programs that include, among others, arrangements with universities, contract research organizations and clinical research sites. We have contractual arrangements with these organizations, however these contracts are cancelable on thirty days notice and our obligations under these contracts are largely based on services performed.

We currently lease approximately 36,400 square feet of office space pursuant to non-cancelable operating leases that will expire in 2012. Future minimum lease payments are as follows for the years ended December 31, (in thousands):

	2011	2012	Total
Future minimum lease payments	$ 667	$ 373	$ 1,040

Note 8. ***Recently Issued Accounting Pronouncements***

We reviewed recently issued accounting pronouncements and have adopted or plan to adopt those that are applicable to us. We do not expect the adoption of these pronouncements to have a material impact on our financial position, results of operations or cash flows.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included elsewhere in this report. Operating results are not necessarily indicative of results that may occur in future periods.

This document contains forward-looking statements, that are based upon current expectations, within the meaning of the Private Securities Reform Act of 1995. We intend that such statements be protected by the safe harbor created thereby. Forward-looking statements involve risks and uncertainties and our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Examples of such forward-looking statements include, but are not limited to, statements about:

- the New Drug Application, or NDA, for REMOXY® (controlled-release oxycodone) with the U.S. Food and Drug Administration, or FDA, by King Pharmaceutical, Inc., or King, a wholly-owned subsidiary of Pfizer, Inc., or Pfizer;
- royalty, milestone or collaboration revenue we may receive from King and other payments we may receive from our collaboration agreements;
- the duration of the development period for expected drug candidates;
- expansion of our potential product line, including the formulation of additional dosage forms of our drug candidates;
- operating losses and anticipated operating and capital expenditures;
- uses of proceeds from our securities offerings;
- the potential benefits of our drug candidates;

- the sufficiency of materials required for the clinical development of our drug candidates;
- the size of potential markets for our products;
- the utility of protection of our intellectual property;
- expected future sources of revenue and capital and increasing cash needs;
- potential competitors or competitive products;
- market acceptance of our drug candidates and potential drug candidates;
- expenses increasing or fluctuations in our operating results;
- expectations regarding trade secrets, technological innovations, licensing agreements and outsourcing of certain business functions;
- anticipated hiring and development of our internal systems and infrastructure;
- the sufficiency of our current resources to fund our operations over the next twelve months;
- plans with respect to our headquarters relocation to Austin, Texas;
- assumptions and estimates used for our disclosures regarding stock-based compensation; and
- estimates concerning the realization of deferred tax assets.

Such forward-looking statements involve risks and uncertainties, including, but not limited to, those risks and uncertainties relating to:

- difficulties or delays in the potential regulatory approval of the REMOXY NDA, including the potential request by the FDA of additional data which may require an extended period of time to obtain and submit, that could significantly delay or prevent such approval;
- the successful development and commercialization of REMOXY and other drug candidates pursuant to our collaboration and license agreements with King, or the King Agreements, and development of other drug candidates pursuant to our other collaboration agreements, and the continuation of such agreements;
- difficulties or delays in development, testing, clinical trials (including patient enrollment), regulatory approval, production and commercialization of our drug candidates;
- unexpected adverse side effects or inadequate therapeutic efficacy of our drug candidates that could slow or prevent product approval (including the risk that current and past results of clinical trials are not indicative of future results of clinical trials) or potential post-approval market acceptance;
- the uncertainty of protection of our intellectual property rights or trade secrets;
- potential infringement of the intellectual property rights of third parties;
- pursuing in-license and acquisition opportunities;
- maintenance or third party funding of our collaboration and license agreements;
- hiring and retaining personnel; and
- our financial position and our ability to obtain additional financing if necessary.

In addition, such statements are subject to the risks and uncertainties discussed in the “Risk Factors” section and elsewhere in this document.

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included elsewhere in this report. Operating results are not necessarily indicative of results that may occur in future periods.

Overview

We are a biopharmaceutical company that develops novel drugs. Our lead drug candidate is called REMOXY. REMOXY is a strong painkiller with a unique formulation designed to reduce potential risks of unintended use. REMOXY and three other abuse-resistant painkillers are being developed pursuant to the King Agreements.

Pfizer acquired King in early 2011. We expect REMOXY will be commercialized within Pfizer's primary care unit. We believe Pfizer's acquisition of King may facilitate REMOXY's commercial success if this drug is approved.

We and King jointly managed a Phase III clinical program and NDA submission for REMOXY. In mid-2008, the FDA accepted our NDA for REMOXY with Priority Review. In December 2008, we received from the FDA a Complete Response Letter for the NDA for REMOXY. In this Complete Response Letter, the FDA indicated additional non-clinical data was required to support the approval of REMOXY. The FDA has not requested or recommended additional clinical efficacy studies prior to approval. In 2009, King assumed sole responsibility for the regulatory approval of REMOXY. This shift of responsibility did not change any economic term of the King Agreements. In December 2010, King resubmitted the REMOXY NDA. In January 2011, we announced that the FDA had accepted the resubmission of the REMOXY NDA.

In January 2011, we announced that the FDA had accepted our IND for abuse-resistant oxymorphone and that we had received a $5.0 million milestone payment for this milestone.

In April 2011, we announced top-line results of an abuse liability study with REMOXY and that the article entitled "The Abuse Potential of REMOXY®, an Extended-Release Formulation of Oxycodone, Compared with Immediate- and Extended-Release Oxycodone" was published in Pain Medicine, the Official Journal of the American Academy of Pain Medicine. In the study, REMOXY met all prospectively defined primary endpoints.

We are also developing a pipeline of novel drug candidates in the area of oncology and hematology. We hold all commercial rights to our pipeline of drug candidates in oncology and hematology.

We are developing a novel drug candidate called PTI-188 to treat metastatic melanoma, a deadly form of skin cancer. PTI-188 is a monoclonal antibody linked to a radioisotope, intended to deliver doses of radiation lethal to melanoma tumors without harming normal tissue.

We have a gene transfer program, initially developed at Stanford University, aimed at correcting an underlying genetic defect in patients with hemophilia, a genetic disorder in which patients are unable to stop bleeding. We have licensed exclusive worldwide commercial rights to the technology used in this program from Poetic Genetics, LLC.

All of our program fee, collaboration and milestone revenue is recognized pursuant to the King Agreements, including:

Description	Year Received	Amount Received (mm)
Upfront program fee payment	2005	$ 150
Program fee payment related to an amendment to the strategic alliance	2010	$ 5
Milestone payments related to:		
acceptance by the FDA of the NDA for REMOXY	2008	$ 15
acceptance by the FDA of the IND for abuse-resistant oxymorphone	2011	$ 5
acceptance by the FDA of the IND for abuse-resistant hydrocodone	2008	$ 5
acceptance by the FDA of the IND for abuse-resistant hydromorphone	2006	$ 5

We will receive a $15.0 million cash milestone payment from King upon regulatory approval of REMOXY in the United States. We could also receive up to $105.0 million in additional milestone payments in the course of clinical development of the other abuse-resistant opioid painkillers. Subject to certain limitations, King is also obligated to fund development expenses incurred by us pursuant to the King Agreements, which result in collaboration revenue. King is obligated to fund the commercialization expenses of, and has the exclusive right to market and sell, drugs developed in connection with the King Agreements. The royalty rate for net sales of REMOXY and the other three abuse-resistant product candidates covered by the King Agreements in the United States is 20%, except as to the first $1.0 billion in cumulative net sales in the United States, for which the royalty is set at 15%. The royalty rate for net sales of products covered by the King Agreements outside the United States is 10% on all of net sales.

Although we were profitable in 2006, 2007 and 2008 based on payments received under the King Agreements and interest income, we have yet to generate any revenues from product sales. Through March 31, 2011, we have recorded an accumulated deficit of approximately $129.8 million. These losses have resulted principally from costs incurred in connection with research and development activities, salaries and other personnel-related costs and general corporate expenses. Research and development activities include costs of preclinical and clinical trials as well as clinical supplies associated with our drug candidates. Salaries and other personnel-related costs include non-cash stock-based compensation associated with options and other equity awards granted to employees and non-employees. Our operating results may fluctuate substantially from period to period as a result of the timing and enrollment rates of clinical trials for our drug candidates and our need for clinical supplies.

We expect to continue to use significant cash resources in our operations for the next several years. Our cash requirements for operating activities and capital expenditures may increase substantially in the future as we:

- continue to conduct preclinical and clinical trials for our drug candidates;
- seek regulatory approvals for our drug candidates;
- develop, formulate, manufacture and commercialize our drug candidates;
- implement additional internal systems and develop new infrastructure;
- acquire or in-license additional products or technologies, or expand the use of our technology;
- maintain, defend and expand the scope of our intellectual property; and

- hire additional personnel.

Product revenue will depend on receiving regulatory approvals for, and successfully marketing, our drug candidates. If development efforts result in regulatory approval and successful commercialization of our drug candidates, we will generate revenue from direct sales of our drugs and/or, if we license our drugs to future collaborators, from the receipt of license fees and royalties from sales of licensed products. We conduct our research and development programs through a combination of internal and collaborative programs. We rely on arrangements with universities, our collaborators, contract research organizations and clinical research sites for a significant portion of our product development efforts.

We focus substantially all our research and development efforts on the research and development of drugs for the treatment of pain, metastatic melanoma and hemophilia. The following table summarizes expenses by category for research and development efforts (in thousands):

	Three Months Ended March 31,	
	2011	2010
Compensation	$ 1,568	$ 1,712
Contractor fees[1]	254	999
Supplies[2]	19	25
Other common costs[3]	337	391
	$ 2,178	$ 3,127

(1) Contractor fees generally include expenses for preclinical studies and clinical trials.
(2) Supplies generally include costs for formulation and manufacturing activities.
(3) Other generally includes the allocation of common costs such as facilities.

Our technology has been applied across certain of our portfolio of drug candidates. Data, know-how, personnel, clinical results, research results and other matters related to the research and development of any one of our drug candidates also relate to, and further the development of, our other drug candidates. For example, we expect that results of non-clinical studies, such as pharmacokinetics, toxicology and other studies, regarding certain components of our drug candidate REMOXY to be applicable to the other potential abuse-resistant drug candidates since all such potential drug candidates are expected to utilize such components. As a result, costs allocated to a specific drug candidate may not necessarily reflect the actual costs surrounding research and development of that drug candidate due to cross application of the foregoing.

We spent approximately $0.1 million in the first quarter of 2011 and $1.3 million in the first quarter of 2010 on PTI-188, primarily on compensation. We spent approximately $0.3 million in the first quarter of 2011 and $0.2 million in the first quarter of 2010 on hemophilia and other projects, primarily on compensation.

Estimating the dates of completion of clinical development, and the costs to complete development, of our drug candidates would be highly speculative, subjective and potentially misleading. Pharmaceutical products take a significant amount of time to research, develop and commercialize. The clinical trial portion of the development of a new drug alone usually spans several years. We expect to reassess our future research and development plans based on our

review of data we receive from our current research and development activities. The cost and pace of our future research and development activities are linked and subject to change.

We intend to relocate our principal place of business to Austin, Texas. In order to minimize potential disruptions to our on-going operations, this relocation will take place gradually now through the end of 2011. Our intentions are to shift our permanent headquarters and the direction, control, and coordination of all of our operations, from California to Texas.

Critical Accounting Policies

The preparation of our financial statements in accordance with United States generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and interest income in our financial statements and accompanying notes. We evaluate our estimates on an ongoing basis, including those estimates related to agreements, research collaborations and investments. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following items in our financial statements require significant estimates and judgments:

- *Expenses for clinical trials.* We incur expenses for clinical trials from the planning phase through patient enrollment to reporting of the underlying data. We estimate expenses incurred for clinical trials that are in process based on patient enrollment and based on clinical data collection and management. Costs that are associated with patient enrollment are recognized as each patient in the clinical trial completes enrollment. Estimated clinical trial costs related to enrollment can vary based on numerous factors, including expected number of patients in trials, the number of patients that do not complete participation in a trial, and when a patient drops out of a trial. Information about patient enrollment can become available significantly after we report our expenses for clinical trials, in which case we would change our estimate of the remaining cost of a trial. Costs that are based on clinical data collection and management are recognized based on estimates of unbilled goods and services received. In the event of early termination of a clinical trial, we would accrue an amount based on estimates of the remaining non-cancelable obligations associated with winding down the clinical trial.

- *Stock-based compensation*. We recognize expense in the statement of operations for the fair value of all share-based payments to employees and directors, including grants of employee stock options and other share based awards. For stock options, we use the Black-Scholes option valuation model and the single-option award approach and straight-line attribution method. Using this approach, the compensation cost is amortized on a straight-line basis over the vesting period of each respective stock option, generally four years. We estimate forfeitures and adjust this estimate periodically based on the extent to which future actual forfeitures differ, or are expected to differ, from such estimates.

  We have granted share-based awards that vest upon achievement of certain performance criteria, or Performance Awards. The value of these awards is the product of the number of shares of our common stock to be issued under the award multiplied by the fair market

value of a share of our common stock on the date of grant. These awards include future performance conditions. We estimate an implicit service period for achieving these performance conditions. Performance Awards vest and common stock is issued on achieving performance conditions. We recognize stock-based compensation expense for Performance Awards when we conclude that achieving a performance condition is probable. We periodically review and update as appropriate our estimates of the implicit service periods and the likelihood of achieving the performance conditions.

- *Revenue recognition and deferred program fee revenue*. We recognize program fee revenue, collaboration revenue and milestone revenue in connection with the King Agreements. Program fee revenue is derived from the $150.0 million paid to us at the inception of these agreements and the $5.0 million paid to us in July 2010 in connection with an amendment to these agreements. These payments are recognized from receipt ratably over our estimate of the development period for the fourth of four drug candidates expected to be developed. We currently estimate the development period for all four expected drug candidates to end in the quarter ended September 30, 2016. We review the estimated development period on a quarterly basis and change it if appropriate based upon our latest expectations. Collaboration revenue from reimbursement of development expenses pursuant to the King Agreements are generally recognized when King has completed its review of the expenses invoiced to them. King is obligated to pay us milestone payments contingent upon the achievement of certain substantive events in the development of REMOXY and the other opioid painkillers under the King Agreements. We recognize milestone payments as revenue when we achieve the underlying developmental milestone as the milestone payments are not dependent upon any other future activities or achievement of any other future milestones and the achievement of each of the developmental milestones were substantively at risk and contingent at the effective date of the collaboration. Substantial effort is involved in achieving each of the developmental milestones. These milestones represent the culmination of discrete earnings processes and the amount of each milestone payment is reasonable in relation with the level of effort associated with the achievement of the milestone. Each milestone payment is non-refundable and non-creditable when made. The ongoing research and development services we provide are priced at fair value based upon the reimbursement of expenses we incur.

- *Taxes*. We make estimates and judgments in determining the need for a provision for income taxes, including the estimation of our taxable income or loss for each full fiscal year. We have accumulated significant deferred tax assets. Deferred income taxes reflect the tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings, if any. We are uncertain as to the timing and amount of any future earnings. Accordingly, we offset these net deferred tax assets with a valuation allowance. We may in the future determine that more of our deferred tax assets will likely be realized, in which case we will reduce our valuation allowance in the quarter in which such determination is made. If the valuation allowance is reduced, we may recognize a benefit from income taxes in our statement of operations in that period. We classify interest recognized in connection with our tax positions as interest expense, when appropriate.

Results of Operations

Three months ended March 31, 2011 and 2010

Revenue – Program fee revenue

Program fee revenue recognized from the program fees we received under the King Agreements increased to $2.7 million for the first quarter of 2011 from $2.5 million for the first quarter of 2010. This increase resulted from our June 2010 amendment to these agreements.

Revenue - Collaboration revenue

Collaboration revenue from reimbursement of our development expenses incurred under the King Agreements decreased to $0.5 million for the first quarter of 2011 from $0.7 million for the first quarter of 2010. These reimbursements decreased primarily because the related expenses were lower from period to period.

We expect the amount and timing of collaboration revenue to fluctuate in relation to the amount and timing of the underlying research and development expenses.

Research and Development Expense

Research and development expense consists primarily of costs of drug development work associated with our drug candidates, including:

- preclinical testing,
- clinical trials,
- clinical supplies and related formulation and design costs, and
- salaries and other personnel-related expenses.

Research and development expense decreased to $2.2 million in the first quarter of 2011 from $3.1 million in the first quarter of 2010. The decrease was primarily due to decreases in clinical and development activities for metastatic melanoma, hemophilia and other projects. Research and development expenses included non-cash stock related compensation costs of $0.7 million in the first quarter of 2011 and $0.8 million in the first quarter of 2010.

We expect research and development expenses to fluctuate over the next several years as we continue our development efforts. We expect our development efforts to result in our drug candidates progressing through various stages of clinical trials, including current and potential clinical trials for our other abuse-resistant drug candidates, as well as further clinical development of our product candidates in metastatic melanoma and hemophilia. Our research and development expenses may fluctuate from period to period due to the timing and scope of our development activities and the results of clinical trials and preclinical studies.

General and Administrative Expense

General and administrative expenses consist primarily of compensation and other general corporate expenses. General and administrative expenses were $1.5 million in each of the quarters ended March 31, 2011 and 2010, respectively. General and administrative expenses included non-cash stock related compensation costs of $0.6 million in each of the quarters ended March 31, 2011 and 2010, respectively.

We expect general and administrative expenses to increase over the next several years in connection with support of pre-commercialization and commercialization activities for our drug candidates. The increase may fluctuate from period to period due to the timing and scope of these activities and the results of clinical trials and preclinical studies.

Interest Income

Interest income was $0.3 million in each of the quarters ended March 31, 2011 and 2010, respectively. We expect our interest income to decrease in the future as we use cash to fund our operations.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through public and private stock offerings, payments received under the King Agreements and interest earned on our investments. We intend to continue to use our capital resources to fund research and development activities, capital expenditures, working capital requirements and other general corporate purposes. As of March 31, 2011, cash, cash equivalents and marketable securities were $98.5 million.

Net cash provided by operating activities was $3.3 million for the first quarter of 2011 compared to net cash used in operating activities of $0.8 million for the first quarter of 2010. Cash provided by operating activities in the first quarter of 2011 included cash from liquidation of receivables at December 31, 2010, consisting of the $5.0 million milestone payment for the IND accepted by the FDA in December 2010 and the $2.1 million in tax credits awarded to us in 2010 under the federal Qualifying Therapeutic Discovery Project Program.

Net cash provided by investing activities was $42.4 million for the first quarter of 2011 and $14.7 million for the first quarter of 2010. Investing activities for both periods consisted primarily of the purchase and maturities of marketable securities. There were no significant purchases of property, equipment or leasehold improvements in 2011 and 2010.

Net cash provided by financing activities was $4.4 million for the first quarter of 2011 and $1.0 for the first quarter of 2010. Cash from financing activities in 2011 and 2010 consisted primarily of proceeds from employee stock option exercises.

Realization of our other deferred tax assets is dependent on future earnings, if any. We are uncertain about the timing and amount of any future earnings. Accordingly, we offset these net deferred tax assets with a valuation allowance. There is a high degree of uncertainty regarding

the timing of future cash outflows associated with our liabilities related to uncertain tax positions. Our liability at March 31, 2011 related to our uncertain tax positions is immaterial.

In 2010, we were selected for an audit of our 2008 federal tax return. This audit was completed in early 2011 with no changes in any of our tax positions.

We currently lease approximately 36,700 square feet of general office space in San Mateo, California and Austin, Texas pursuant to non-cancelable operating leases that will expire in 2012. We believe that our facilities are adequate and suitable for our current needs. Future minimum lease payments are as follows for the years ended December 31, (in thousands):

	2011	2012	Total
Future minimum lease payments	$ 667	$373	$1,040

We have license agreements that require us to make milestone payments upon the successful achievement of milestones, including clinical milestones. Our license agreements also require us to pay certain royalties to our licensors if we succeed in fully commercializing products under these license agreements. All of these potential future payments are cancelable as of March 31, 2011. Our formulation agreement with Durect Corporation obligates us to make certain milestone payments upon achieving clinical milestones and regulatory milestones. King is obligated to reimburse us for any of our milestone payments and royalty payments to Durect Corporation.

We have an accumulated deficit of $129.8 million at March 31, 2011. We expect our cash requirements to be significant in the future. The amount and timing of our future cash requirements will depend on regulatory and market acceptance of our drug candidates and the resources we devote to researching and developing, formulating, manufacturing, commercializing and supporting our products. We believe that our current resources should be sufficient to fund our operations for at least the next 12 months. We may seek additional future funding through public or private financing within this timeframe, if such funding is available and on terms acceptable to us.

Off-balance Sheet Arrangements

As of March 31, 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. We do not have relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may be subject to market risk. This

means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the interest rate later rises, the principal amount of our investment will probably decline. A hypothetical 50 basis point increase in interest rates reduces the fair value of our available-for-sale securities at March 31, 2011 by approximately $0.3 million. To minimize this risk, we intend to maintain our portfolio of cash equivalents and marketable securities in a variety of securities, including commercial paper, government and non-government debt securities and/or money market funds that invest in such securities. We have no holdings of derivative financial or commodity instruments.

As of March 31, 2011, our investments consisted of investments in corporate and government notes and obligations, certificates of deposits or in money market accounts and checking funds with variable market rates of interest. We believe our credit risk is immaterial. We measure our cash equivalents and marketable securities at fair value on a recurring basis and have significant observable inputs where there are identical or comparable assets in the market to use in establishing our fair value measurements. We use significant observable inputs that include but are not limited to benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Generally, the types of instruments we invest in are not traded on a market such as the NASDAQ Global Market, which we would consider to be Level 1 inputs. We generally consider our inputs to be Level 1 and Level 2 inputs. We do not have any investments that would require inputs considered to be Level 3. We use the bid price to establish fair value.

Item 4. ***Controls and Procedures***

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission, or SEC, rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings*

None.

Item 1A. Risk Factors

Our future operating results may vary substantially from anticipated results due to a number of factors, many of which are beyond our control. The following discussion highlights some of these factors and the possible impact of these factors on future results of operations. You should carefully consider these factors before making an investment decision. If any of the following factors actually occur, our business, financial condition or results of operations could be harmed. In that case, the price of our common stock could decline, and you could experience losses on your investment in our common stock.

Clinical and Regulatory Risks

If we or our collaborators fail to obtain the necessary regulatory approvals, or if such approvals are limited, we and our collaborators will not be allowed to commercialize our drug candidates, and we will not generate product revenues.

Satisfaction of all regulatory requirements for commercialization of a drug candidate typically takes many years, is dependent upon the type, complexity and novelty of the drug candidate, and requires the expenditure of substantial resources for research and development. In December 2008, we received from the FDA a Complete Response Letter for the NDA for REMOXY. In this Complete Response Letter, the FDA indicated additional non-clinical data is required to support the approval of REMOXY. The FDA has not requested or recommended additional clinical efficacy studies prior to approval. In March 2009, King assumed sole responsibility for the regulatory approval of REMOXY. In December 2010, King resubmitted the NDA for REMOXY. While the FDA is not requiring additional clinical trials to support approval, there can be no assurance that the FDA will approve the NDA for REMOXY (even with the additional data provided by King) or that the FDA will not require additional clinical or non-clinical data to be submitted. If the FDA were to require additional clinical or non-clinical data, providing such data may significantly delay the potential approval of REMOXY.

Our research and clinical approaches may not lead to drugs that the FDA considers safe for humans and effective for indicated uses we are studying. The FDA may require additional studies, in which case we or our collaborators would have to expend additional time and resources and would likely delay the date of potentially receiving regulatory approval. The approval process may also be delayed by changes in government regulation, future legislation or administrative action or changes in FDA policy that occur prior to or during our regulatory review. Delays in obtaining regulatory approvals would:

- delay commercialization of, and product revenues from, our drug candidates; and
- diminish the competitive advantages that we may have otherwise enjoyed, which would have an adverse effect on our operating results and financial condition.

Even if we or our collaborators comply with all FDA regulatory requirements, our drug candidates may never obtain regulatory approval. If we or our collaborators fail to obtain regulatory approval for any of our drug candidates we will have fewer commercial products, if any, and corresponding lower product revenues, if any. Even if our drug candidates receive regulatory approval, such approval may involve limitations on the indications and conditions of use or marketing claims for our products. Further, later discovery of previously unknown problems or adverse events could result in additional regulatory restrictions, including withdrawal of products. The FDA may also require us or our collaborators to commit to perform lengthy Phase IV post-approval clinical trials. Our expending additional resources on such trials would have an adverse effect on our operating results and financial condition.

In jurisdictions outside the United States, we or our collaborators must receive marketing authorizations from the appropriate regulatory authorities before commercializing our drugs. Regulatory approval processes outside the United States generally include all of the aforementioned requirements and risks associated with FDA approval.

If we or our collaborators are unable to design, conduct and complete clinical trials successfully, our drug candidates will not be able to receive regulatory approval.

In order to obtain FDA approval for any of our drug candidates, we or our collaborators must submit to the FDA an NDA that demonstrates with substantive evidence that the drug candidate is both safe and effective in humans for its intended use. This demonstration requires significant research and animal tests, which are referred to as preclinical studies, as well as human tests, which are referred to as clinical trials.

Results from Phase I clinical programs may not support moving a drug candidate to Phase II or Phase III clinical trials. Phase III clinical trials may not demonstrate the safety or efficacy of our drug candidates. Success in preclinical studies and early clinical trials does not ensure that later clinical trials will be successful. Results of later clinical trials may not replicate the results of prior clinical trials and preclinical studies. Even if the results of Phase III clinical trials are positive, we or our collaborators may have to commit substantial time and additional resources to conducting further preclinical studies and clinical trials before obtaining FDA approval for any of our drug candidates.

Clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous requirements. The clinical trial process also consumes a significant amount of time. Furthermore, if participating patients in clinical trials suffer drug-related adverse reactions during the course of such clinical trials, or if we, our collaborators or the FDA believe that participating patients are being exposed to unacceptable health risks, such clinical trials will have to be suspended or terminated. Failure can occur at any stage of the clinical trials, and we or our collaborators could encounter problems that cause abandonment or repetition of clinical trials.

Our clinical trials with REMOXY and our potential future clinical trials for other drug candidates for treatment of pain measure clinical symptoms, such as pain and physical dependence that are not biologically measurable. The success in clinical trials of REMOXY and our other drug candidates designed to reduce potential risks of unintended use depends on reaching statistically significant changes in patients' symptoms based on clinician-rated scales.

Due in part to a lack of consensus on standardized processes for assessing clinical outcomes, these scores may or may not be reliable, useful or acceptable to regulatory agencies.

We have no history of developing drug candidates for oncology or hemophilia. We do not know whether any of our planned clinical trials in metastatic melanoma or hemophilia will result in marketable drugs.

In addition, completion of clinical trials can be delayed by numerous factors, including:

- delays in identifying and agreeing on acceptable terms with prospective clinical trial sites;
- slower than expected rates of patient recruitment and enrollment;
- unanticipated patient drop out rates;
- increases in time required to complete monitoring of patients during or after participation in a clinical trial; and
- unexpected need for additional patient-related data.

Any of these delays could significantly impact the timing, approval and commercialization of our drug candidates and could significantly increase our overall costs of drug development.

Even if clinical trials are completed as planned, their results may not support expectations or intended marketing claims. The clinical trials process may fail to demonstrate that our drug candidates are safe and effective for indicated uses. Such failure would cause us to abandon a drug candidate and could delay development of other drug candidates.

Clinical trial designs that were discussed with authorities prior to their commencement may subsequently be considered insufficient for approval at the time of application for regulatory approval.

We discuss with and obtain guidance from regulatory authorities on certain of our clinical development activities. With the exception of our Special Protocol Assessment, or SPA, such as the one we completed with the FDA with respect to the Phase III clinical trial for REMOXY, these discussions are not binding obligations on the part of regulatory authorities.

Regulatory authorities may revise previous guidance or decide to ignore previous guidance at any time during the course of our clinical activities or after the completion of our clinical trials. Even with successful clinical safety and efficacy data, including such data from a clinical trial conducted pursuant to an SPA, we may be required to conduct additional, expensive clinical trials to obtain regulatory approval.

Developments by competitors may establish standards of care that affect our ability to conduct our clinical trials as planned.

We have conducted clinical trials of our drug candidates comparing our drug candidates to both placebo and other approved drugs. Changes in standards related to clinical trial design could affect our ability to design and conduct clinical trials as planned. For example, regulatory authorities may not allow us to compare our drug candidates to placebo in a particular clinical indication where approved products are available. In that case, both the cost and the amount of time required to conduct a clinical trial could increase.

The DEA limits the availability of the active ingredients in certain of our current drug candidates and, as a result, quotas for these ingredients may not be sufficient to complete clinical trials, or to meet commercial demand or may result in clinical delays.

The U.S. Drug Enforcement Administration, or DEA, regulates chemical compounds as Schedule I, II, III, IV or V substances, with Schedule I substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Certain active ingredients in our current drug candidates, such as oxycodone, are listed by the DEA as Schedule II under the Controlled Substances Act of 1970. Consequently, their manufacture, research, shipment, storage, sale and use are subject to a high degree of oversight and regulation. For example, all Schedule II drug prescriptions must be signed by a physician, physically presented to a pharmacist and may not be refilled without a new prescription. Furthermore, the amount of Schedule II substances that can be obtained for clinical trials and commercial distribution is limited by the DEA and quotas for these substances may not be sufficient to complete clinical trials or meet commercial demand. There is a risk that DEA regulations may interfere with the supply of the drugs used in clinical trials for our product candidates, and, in the future, the ability to produce and distribute our products in the volume needed to meet commercial demand.

Conducting clinical trials of our drug candidates or potential commercial sales of a drug candidate may expose us to expensive product liability claims and we may not be able to maintain product liability insurance on reasonable terms or at all.

The risk of product liability is inherent in the testing of pharmaceutical products. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit or terminate testing of one or more of our drug candidates. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of our drug candidates. We currently carry clinical trial insurance but do not carry product liability insurance. If we successfully commercialize one or more of our drug candidates, we may face product liability claims, regardless of FDA approval for commercial manufacturing and sale. We may not be able to obtain such insurance at a reasonable cost, if at all. Even if our agreements with any current or future corporate collaborators entitle us to indemnification against product liability losses, such indemnification may not be available or adequate should any claim arise.

If our drug candidates receive regulatory approval, we and our collaborators will also be subject to ongoing FDA obligations and continued regulatory review, such as continued safety reporting requirements, and we and our collaborators may also be subject to additional FDA post-marketing obligations or new regulations, all of which may result in significant expense and limit our and our collaborators' ability to commercialize our potential drugs.

Any regulatory approvals that our drug candidates receive may also be subject to limitations on the indicated uses for which the drug may be marketed or contain requirements for potentially costly post-marketing follow-up studies. In addition, if the FDA approves any of our drug candidates, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping for the drug will be subject to extensive regulatory requirements. The subsequent discovery of previously unknown problems with the drug, including but not limited to adverse

events of unanticipated severity or frequency, or the discovery that adverse events previously observed in preclinical research or clinical trials that were believed to be minor actually constitute much more serious problems, may result in restrictions on the marketing of the drug, and could include withdrawal of the drug from the market.

The FDA's policies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of our drug candidates. For example, the FDA has met with the sponsors of opioid drug products in order to discuss Risk Evaluation and Mitigation Strategies, or REMS, for opioid drugs. These discussions may result in changes to or additional government regulations with respect to our opioid drug candidates. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. Any of these events could prevent us from marketing our drugs and our business could suffer.

Risks Relating to our Collaboration Agreements

Pfizer's acquisition of King may have an adverse impact on our collaboration.

Pfizer completed its acquisition of King in early 2011. Drugs or drug candidates being commercialized or developed by Pfizer, its subsidiaries and affiliates may compete for research, development and commercialization resources with our drug candidates that are subject to the King Agreements. Further, any post-merger integration of Pfizer's and King's businesses may divert the attention of management and personnel at King from their focus on seeking approval of REMOXY or otherwise supporting the other drug candidates that are subject to our collaboration. Pfizer is a much larger company than King was prior to Pfizer's acquisition of King. Pfizer may have different strategic interests than King had as an independent company. There can be no assurance that King or Pfizer will devote sufficient resources to the continued development of REMOXY and the other drug candidate that are the subject of our collaboration in a timely manner.

If King, Pfizer or other outside collaborators fail to devote sufficient time and resources to our drug development programs, or if their performance is substandard, regulatory submissions and introductions for our products may be delayed.

We rely on Pfizer and its subsidiaries to devote time and resources to the development, manufacturing and commercialization of REMOXY and other drug candidates under the King Agreements. Pfizer and its subsidiaries and affiliates may commercialize, develop or acquire drugs or drug candidates that may compete directly or compete for resources with our drug candidates under the King Agreements. For instance, King is developing Oxycodone NT (an extended release abuse resistant formulation of oxycodone that would compete with REMOXY) and markets and sells Embeda (an extended-release oral formulation of morphine sulfate) and Avinza (a once-daily morphine treatment for moderate to severe pain). There can be no assurance that these other drugs or drug candidates in the Pfizer corporate family will not become competitive with our drug candidates being developed under the King Agreements. If time and

resources devoted are limited or there is a failure to fund the continued development of REMOXY or other opioid drug candidates as required by the King Agreements, or there is otherwise a failure to perform as we expect, we may not achieve clinical and regulatory milestones and regulatory submissions and related product introductions may be delayed or prevented, and revenues that we would receive from these activities will be less than expected. In addition, if King fails to perform as required under the King Agreements, their failure may jeopardize our rights under our license with Durect.

We depend on independent investigators and collaborators, such as universities and medical institutions, to conduct our clinical trials under agreements with us. These investigators and collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. They may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such activities ourselves. If these investigators or collaborators fail to devote sufficient time and resources to our drug development programs, or if their performance is substandard, the approval of our regulatory submissions and our introductions of new drugs will be delayed or prevented.

Our collaborators may also have relationships with other commercial entities, some of which may compete with us. If outside collaborators assist our competitors to our detriment, the approval of our regulatory submissions will be delayed and the sales from our products, if any are commercialized, will be less than expected.

If we fail to maintain our collaboration agreements and licenses for REMOXY and other drugs designed to reduce potential risks of unintended use, we may have to reduce or delay our drug candidate development.

Our plan for developing, manufacturing and commercializing REMOXY and other drugs designed to reduce potential risks of unintended use currently requires us to successfully maintain the King Agreements to advance our programs and provide funding to support our expenditures on REMOXY and other drug candidates and to maintain our license from Durect. If we are not able to maintain the King Agreements or if King doesn’t provide the required funding under the King Agreements and the funding required to meet our obligations to Durect, we may have to limit the size or scope of, or delay or abandon the development of other drug candidates or undertake and fund development of these drug candidates ourselves and if we are unable to meet the obligations necessary to maintain our license with Durect for one or more potential products we may lose the rights to utilize Durect’s technology for such potential products. If we elect to fund drug development efforts with respect to REMOXY and other drug candidates on our own, we may need to obtain additional capital, which may not be available on acceptable terms, or at all.

We may not succeed at in-licensing drug candidates or technologies to expand our product pipeline.

We may not successfully in-license drug candidates or technologies to expand our product pipeline. The number of such candidates and technologies is limited. Competition among large pharmaceutical companies and biopharmaceutical companies for promising drug candidates and technologies is intense because such companies generally desire to expand their product pipelines

through in-licensing. If we fail to carry out such in-licensing and expand our product pipeline, our potential future revenues may suffer.

Our collaborative agreements may not succeed or may give rise to disputes over intellectual property, disputes concerning the scope of collaboration activities or other issues.

Our strategy to focus on drug development requires us to enter into collaborative agreements with third parties, such as the King Agreements and our license agreement with Durect. Such agreements are generally complex and contain provisions that could give rise to legal disputes, including potential disputes concerning ownership of intellectual property under collaborations or disputes concerning the scope of collaboration activities. Such disputes can delay or prevent the development of potential new drug products, or can lead to lengthy, expensive litigation or arbitration. Other factors relating to collaborative agreements may adversely affect the success of our drug candidates, including:

- the development of parallel products by our collaborators or by a competitor;
- arrangements with collaborative partners that limit or preclude us from developing certain products or technologies;
- premature termination of a collaborative or license agreement; or
- failure by a collaborative partner to provide required funding or to devote sufficient resources to the development of or legal defense of our potential products.

Risks Relating to Commercialization

If physicians and patients do not accept and use our drugs, we will not achieve sufficient product revenues and our business will suffer.

Even if the FDA approves our drugs, physicians and patients may not accept and use them. Acceptance and use of our drugs will depend on a number of factors including:

- perceptions by members of the healthcare community, including physicians, about the safety and effectiveness of our drugs, and, in particular, the effectiveness of REMOXY in reducing potential risks of unintended use;
- perceptions by physicians regarding the cost benefit of REMOXY in reducing potential risks of unintended use;
- published studies demonstrating the cost-effectiveness of our drugs relative to competing products;
- availability of reimbursement for our products from government or healthcare payers;
- our or our collaborators' ability to implement a risk management plan prior to the distribution of any Schedule II drug; and
- effectiveness of marketing and distribution efforts by King or Pfizer, us and other licensees and distributors.

Because we expect to rely on sales generated by our current lead drug candidates for substantially all of our revenues for the foreseeable future, the failure of any of these drugs to find market acceptance would harm our business and could require us to seek additional financing.

If Pfizer or its subsidiaries are not successful in developing and commercializing REMOXY and in commercializing other opioid drugs under the King Agreements, our revenues and our business will suffer.

Our ability to earn royalties from sales of REMOXY depends on King's, and the greater Pfizer corporate family's, ability to obtain regulatory approval for and commercialize REMOXY. Additionally, our ability to earn royalties from sales of REMOXY and other drugs subject to the King Agreements will depend on King's, and the greater Pfizer corporate family's, ability to maintain regulatory approval and achieve market acceptance of such drugs once commercialized. Pfizer or its subsidiaries (including King) may elect to independently develop drugs that could compete with ours or fail to commit sufficient resources to the development, marketing and distribution of REMOXY and other drugs developed under the King Agreements. King, along with its parent and affiliated entities, may not proceed with the commercialization of REMOXY and other drugs developed under the King Agreements with the same degree of urgency as we would because of other priorities they face. If King and its parent and affiliated entities are not successful in developing or commercializing REMOXY for a variety of reasons, including but not limited to competition from other pharmaceutical companies, or if King and its parent and affiliated entities fail to perform as we expect, our potential for revenue from drugs developed the King Agreements, if any, could be dramatically reduced and our business would suffer.

If we are unable to develop our own sales, marketing and distribution capabilities, or if we are not successful in contracting with third parties for these services on favorable terms, or at all, our product revenues could be disappointing.

We currently have no sales, marketing or distribution capabilities. Except with regard to products developed under the King Agreements, in order to commercialize our products, if any are approved by the FDA, we will either have to develop such capabilities internally or collaborate with third parties who can perform these services for us. If we decide to commercialize any of our drugs ourselves, we may not be able to hire the necessary experienced personnel and build sales, marketing and distribution operations which are capable of successfully launching new drugs and generating sufficient product revenues. In addition, establishing such operations will take time and involve significant expense.

If we decide to enter into new co-promotion or other licensing arrangements with third parties, we may be unable to locate acceptable collaborators because the number of potential collaborators is limited and because of competition from others for similar alliances with potential collaborators. Even if we are able to identify one or more acceptable new collaborators, we may not be able to enter into any collaborative arrangements on favorable terms, or at all.

In addition, due to the nature of the market for our drug candidates, it may be necessary for us to license all or substantially all of our drug candidates not covered by the King Agreements to a single collaborator, thereby eliminating our opportunity to commercialize these other products independently. If we enter into any such new collaborative arrangements, our revenues are likely to be lower than if we marketed and sold our products ourselves.

In addition, any revenues we receive would depend upon our collaborators' efforts which may not be adequate due to lack of attention or resource commitments, management turnover,

change of strategic focus, business combinations or other factors outside of our control. Depending upon the terms of our collaboration, the remedies we have against an under-performing collaborator may be limited. If we were to terminate the relationship, it may be difficult or impossible to find a replacement collaborator on acceptable terms, or at all.

If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer.

The market for our drug candidates is characterized by intense competition and rapid technological advances. If our drug candidates receive FDA approval, they will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products are unable to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We and our collaborators will compete for market share against fully integrated pharmaceutical companies or other companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have drugs already approved or drug candidates in development that will or may compete against our approved drug candidates. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs and have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing drugs;
- conducting preclinical testing and human clinical trials;
- obtaining FDA and other regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing, distributing and selling drugs.

If we fail to obtain acceptable prices or an adequate level of reimbursement for our products from healthcare payers, our ability to generate product revenues will be diminished.

Our ability to commercialize our drugs, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from:

- government and health administration authorities;
- private health maintenance organizations and health insurers; and
- other healthcare payers.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payers, including Medicare, health maintenance organizations and managed care organizations, are challenging the prices charged for medical products and services and/or are seeking pharmacoeconomic data to justify formulary acceptance and reimbursement practices. We currently have not generated pharmacoeconomic data on any of our drug candidates. Government and other healthcare payers increasingly are attempting to contain

healthcare costs by limiting both coverage and the level of reimbursement for drugs, and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has or has not granted labeling approval. Adequate third-party insurance coverage may not be available to patients for any products we discover and develop, alone or with collaborators. If government and other healthcare payers do not provide adequate coverage and reimbursement levels for our products, market acceptance of our drug candidates could be limited.

Government agencies may establish and promulgate usage guidelines that could limit the use of our drug candidates.

Government agencies, professional and medical societies, and other groups may establish usage guidelines that apply to our drug candidates. These guidelines could address such matters as usage and dose, among other factors. Application of such guidelines could limit the clinical use or commercial appeal of our drug candidates.

Risks Relating to our Intellectual Property

Our ability to commercialize our drug candidates will depend on our ability to sell such products without infringing the patent or proprietary rights of third parties. If we are sued for infringing the intellectual property rights of third parties, such litigation will be costly and time consuming and an unfavorable outcome would have a significant adverse effect on our business.

Our ability to commercialize our drug candidates will depend on our ability to sell such products without infringing the patents or other proprietary rights of third parties. Intellectual property rights in the areas of controlled-release technology, pharmaceutical ingredients, antibodies, gene integration and more generally, in oncology, neurology, radiopharmaceutical technologies and gene therapy are complicated and are continuously evolving. Holders of patent rights in these areas may allege that the commercialization of REMOXY or our other drug candidates infringes such patent rights. While we believe that we would have valid defenses to any claim of infringement, there can be no assurance that these or other third party patents will not limit our ability to commercialize REMOXY or our other drug candidates.

In addition, because patent applications are published 18 months after their filing, and because applications can take several years to issue, there may be currently pending third-party patent applications that are unknown to us, which may later result in issued patents. If a third-party claims that we infringe on its patents or other proprietary rights, we could face a number of issues that could seriously harm our competitive position, including:

- infringement claims that, with or without merit, can be costly and time consuming to litigate, can delay the regulatory approval process and can divert management’s attention from our core business strategy;
- substantial damages for past infringement which we may have to pay if a court determines that our products or technologies infringe upon a competitor’s patent or other proprietary rights;

- a court order prohibiting us from commercializing our products or technologies unless the holder licenses the patent or other proprietary rights to us, which such holder is not required to do;
- if a license is available from a holder, we may have to pay substantial royalties or grant cross licenses to our patents or other proprietary rights; and
- redesigning our process so that it does not infringe the third-party intellectual property rights, which may not be possible, or which may require substantial time and expense including delays in bringing our own products to market. Such actions could harm our competitive position and our ability to generate revenue and could result in increased costs.

If we are unable to protect our intellectual property our competitors could develop and market products with similar features that may reduce demand for our drug candidates.

Our success, competitive position and potential future revenues will depend in part on our ability to protect our intellectual property. If we or our collaborators fail to file, prosecute, obtain or maintain certain patents, our competitors could market products that contain features and clinical benefits similar to those of our products, and demand for our products could decline as a result.

We and our collaborators have filed patent applications with the U.S. Patent and Trademark Office to further protect our technologies. If these patent applications do not result in issued patents, the duration or scope of our patent rights may be limited and our future revenues could be lower as a result.

We may be involved in challenges to our intellectual property. An adverse outcome of a challenge to our intellectual property could result in loss of claims of patents or other intellectual property rights that pertain to certain drugs we currently have under development and could have a material adverse impact on our future revenues.

We intend to file additional patent applications relating to our technology, products and processes. We may direct our collaborators to file additional patent applications relating to the licensed technology or we may do so ourselves. However, our competitors may challenge, invalidate or circumvent any of our current or future patents. These patents may also fail to provide us with meaningful competitive advantages.

We may become involved in expensive litigation or other legal proceedings related to our existing intellectual property rights, including patents.

We expect that we will rely upon patents, trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information or be issued patents that may prevent the sale of our products or know-how or require us to license such information and pay significant fees or royalties in order to produce our products.

Our technology could infringe upon claims of patents owned by others. If we were found to be infringing on a patent held by another, we might have to seek a license to use the patented technology. In that case, we might not be able to obtain such a license on terms acceptable to us,

or at all. If a legal action were to be brought against us or our licensors, we could incur substantial defense costs, and any such action might not be resolved in our favor. If such a dispute were to be resolved against us, we could have to pay the other party large sums of money and our use of our technology and the testing, manufacture, marketing or sale of one or more of our proposed products could be restricted or prohibited.

Risks Relating to our Business and Strategy

Competition for qualified personnel in the pharmaceutical industry is intense, and if we are not successful in attracting and retaining qualified personnel, we could experience delays in completing necessary clinical trials, in the regulatory approval process or in formulating, manufacturing, marketing and selling our potential products.

We will need to hire additional qualified personnel with expertise in clinical research, preclinical testing, government regulation, formulation and manufacturing and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals, particularly in the San Francisco Bay area, is intense, and our search for such personnel may not be successful. Attracting and retaining qualified personnel is critical to our success.

If third-party manufacturers of our drug candidates fail to devote sufficient time and resources to our concerns, or if their performance is substandard, our clinical trials and product introductions may be delayed and our costs may be higher than expected.

We have no manufacturing facilities and have limited experience in drug product development and commercial manufacturing. We lack the resources and expertise to formulate, manufacture or test the technical performance of our drug candidates. We currently rely on a limited number of experienced personnel and a small number of contract manufacturers and other vendors to formulate, test, supply, store and distribute drug supplies for our clinical trials. Our reliance on a limited number of vendors exposes us to the following risks, any of which could delay our clinical trials, and, consequently, FDA approval of our drug candidates and commercialization of our products, result in higher costs, or deprive us of potential product revenues:

- Contract commercial manufacturers, their sub-contractors or other third parties we rely on, may encounter difficulties in achieving the volume of production needed to satisfy clinical needs or commercial demand, may experience technical issues that impact quality or compliance with applicable and strictly enforced regulations governing the manufacture of pharmaceutical products, and may experience shortages of qualified personnel to adequately staff production operations.
- Our contract manufacturers could default on their agreements with us to provide clinical supplies or meet our requirements for commercialization of our products.
- For certain of our drug candidates, the use of alternate manufacturers may be difficult because the number of potential manufacturers that have the necessary governmental licenses to produce narcotic products is limited. Additionally, the FDA and the DEA must approve any alternative manufacturer of our products before we may use the alternative manufacturer to produce our supplies.

- It may be difficult or impossible for us to find a replacement manufacturer on acceptable terms quickly, or at all. Our contract manufacturers and vendors may not perform as agreed or may not remain in the contract manufacturing business for the time required to successfully produce, store and distribute our products.
- If any contract manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to such innovation.

We may not be able to successfully develop or commercialize potential drug candidates for indications other than pain.

Our research and development activities include development of potential drug candidates for indications other than pain, such as metastatic melanoma and hemophilia. We have no history of developing metastatic melanoma or hemophilia drug candidates or manufacturing radiopharmaceuticals. We do not know whether any of our planned clinical trials in metastatic melanoma or hemophilia will result in marketable products. We do not anticipate that our drug candidates in these areas will reach the market for at least several years, if at all.

Our employees and consultants are generally subject to confidentiality or other agreements with their former employers and they may inadvertently or otherwise violate those agreements.

Many of our employees and consultants were previously employed at universities or biotechnology or pharmaceutical companies. While we require our employees and consultants to honor any agreements they may have entered into prior to working with us, we may be subject to claims that we inadvertently or otherwise used or disclosed trade secrets or other confidential information belonging to former employers. Failure to defend such claims could result in loss of valuable rights or personnel, which in turn could harm or prevent commercialization of our drug candidates. Successful defense against such claims can be expensive and might distract us from executing our strategies.

Law enforcement concerns over diversion of opioids and social issues around abuse of opioids may make the regulatory approval process and commercialization of our drug candidates very difficult.

Media stories regarding the diversion of opioids and other controlled substances are commonplace. Law enforcement agencies or regulatory agencies may apply policies that seek to limit the availability of opioids. Such efforts may adversely affect the regulatory approval and commercialization of our drug candidates.

Developments by competitors may render our products or technologies obsolete or non-competitive.

Alternative technologies and products are being developed to improve or replace the use of opioids for pain management, several of which are in clinical trials or are awaiting approval from the FDA. In addition, the active ingredients in nearly all opioid drugs are available in generic form. Drug companies that sell generic opioid drugs represent substantial competition. Many of these organizations competing with us have substantially greater capital resources, larger

research and development staffs and facilities, greater experience in drug development and in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. Our competitors may market less expensive or more effective drugs that would compete with our drug candidates or reach market with competing drugs before we are able to reach market with our drug candidates. These organizations also compete with us to attract qualified personnel and partners for acquisitions, joint ventures or other collaborations.

Business interruptions could limit our ability to operate our business.

Our operations as well as those of our collaborators on which we depend are vulnerable to damage or interruption from computer viruses, human error, natural disasters, electrical and telecommunication failures, international acts of terror and similar events. We have not established a formal disaster recovery plan and our back-up operations and our business interruption insurance may not be adequate to compensate us for losses we may suffer. A significant business interruption could result in losses or damages incurred by us and require us to cease or curtail our operations.

Risks Relating to Manufacturing

We rely on third-party commercial drug manufacturers for drug supply.

Approved third-party commercial drug manufacturers may subsequently be stopped from producing, storing, shipping or testing our drug products due to their non-compliance with federal, state or local regulations. Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the DEA, and corresponding state and foreign government agencies to ensure strict compliance with GMP and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.

In addition, even if we enter into long-term supply arrangements with third-party suppliers, we cannot control changes in strategy by third-party suppliers that affect their ability or willingness to continue to supply our drug products on acceptable terms.

If our drug supply for one of our drug candidates was interrupted, our operations could be negatively affected.

If we and King cannot formulate and scale-up a wide range of dosage forms of REMOXY and other drug candidates designed to reduce potential risks of unintended use, we and King might determine that the commercial opportunity for REMOXY and these other drug candidates in certain dosage forms is too limited to warrant further investment in clinical testing and development.

We and King plan to formulate and scale-up a wide range of dosage forms of REMOXY and other drug candidates designed to reduce potential risks of unintended use. We and King may not be able to successfully complete our formulation or scale-up activities or we may determine that the commercial opportunity for REMOXY and these other drug candidates in certain dosage forms is too limited to warrant further investment. If we and King are unsuccessful in our formulation or scale-up activities with REMOXY and these other drug candidates, our future

revenue from milestones and royalties under the King Agreements may be less than expected and our operations may suffer.

We and King rely solely on Durect to provide us with certain components of REMOXY and other drug candidates designed to reduce potential risks of unintended use and will continue to rely on Durect to produce commercial supplies of these components.

We and King rely on Durect as the sole source provider of certain components of REMOXY and other drug candidates designed to reduce potential risks of unintended use, and will rely solely on Durect to produce commercial supplies of these components. Durect's failure to achieve and maintain satisfactory manufacturing standards could result in product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could materially harm our business. Durect may encounter manufacturing difficulties involving production yields, quality control and quality assurance. Durect is subject to ongoing periodic unannounced inspection by the FDA and corresponding state and foreign agencies to ensure strict compliance with government regulations and corresponding foreign standards. We cannot control Durect's compliance with these regulations and standards.

If King receives marketing approval for and commercially launches REMOXY or other candidates under the King Agreements, Durect may need to materially expand its manufacturing capacity. Durect may not be able to increase its manufacturing capacity for REMOXY and these other drug candidates in a timely or economic manner, or at all. Moreover, significant scale up of manufacturing will require additional validation studies, which are subject to FDA review and approval. If Durect is unable to successfully increase the manufacturing capacity for such components of REMOXY and these other drugs, at an acceptable cost or otherwise, and King is unable to establish alternative manufacturing capabilities, commercialization of REMOXY and these other drugs may be delayed, prevented or impaired or there may be a shortage in supply, which would harm our future revenues and cause our business to suffer.

Risks Relating to our Financial Position and Need for Financing

Our operating history may make it difficult for you to evaluate our business to date and to assess its future viability.

Our operations from our inception to date have been limited to organizing and staffing our company, acquiring, developing and securing our technology, undertaking preclinical studies and clinical trials of our drug candidates and forming collaborations. We have not yet demonstrated our ability to obtain regulatory approval, formulate and manufacture our drug candidates on a commercial scale or conduct sales and marketing activities. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

We have a history of losses and expect to incur substantial losses and negative operating cash flows for the foreseeable future.

Although we were profitable in some years in the past based on payments from King and interest income, we have yet to generate any revenues from product sales. We had an

accumulated deficit. Even if we succeed in developing and commercializing one or more of our drug candidates, we expect to continue to use significant cash resources in our operations for the foreseeable future. We anticipate that our expenses will increase substantially in the foreseeable future as we:

- continue to conduct preclinical studies and clinical trials for our drug candidates;
- seek regulatory approvals for our drug candidates;
- develop, formulate, manufacture and commercialize our drug candidates;
- implement additional internal systems and develop new infrastructure;
- acquire or in-license additional products or technologies, or expand the use of our technology;
- maintain, defend and expand the scope of our intellectual property; and
- hire additional personnel.

We will need to generate significant revenues to achieve and maintain profitability. If we cannot successfully develop, obtain regulatory approval for and commercialize our drug candidates, we will not be able to generate such revenues or achieve profitability in the future. Our failure to achieve or maintain profitability would have a material adverse impact on the market price of our common stock.

If we cannot raise additional capital on acceptable terms, we may be unable to complete planned clinical trials of any or some of our drug candidates or to pursue attractive business opportunities.

We have funded all of our operations and capital expenditures with the proceeds from our public and private stock offerings, payments received under the King Agreements and interest earned on our investments. We expect that our current cash, cash equivalents and marketable securities will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. However, we may elect to raise additional funds within such twelve-month period or need to raise additional funds thereafter and additional financing may not be available on favorable terms, if at all. Even if we succeed in selling additional securities to raise funds, our existing stockholders' ownership percentage would be reduced and new investors may demand rights, preferences or privileges senior to those of existing stockholders. If we raise additional capital through debt financing, if available, such financings may involve covenants that restrict our business activities. If we raise additional capital through strategic alliance and license arrangements such as the King Agreements, we may have to trade our rights to our technology, intellectual property or drug candidates to others in such arrangements on terms that may not be favorable to us.

If we determine that we need to raise additional funds and we are not successful in doing so, we may be unable to complete the clinical development of some or all of our drug candidates or to seek or obtain FDA approval of our drug candidates. We then could be forced to discontinue product development, enter into a relationship with an additional strategic partner earlier than currently intended, reduce sales and marketing efforts or forego attractive business opportunities.

Risks Relating to an Investment in our Common Stock

Our stock price has been volatile and could experience a sudden decline in value.

Our common stock has experienced significant price and volume fluctuations and may continue to experience volatility in the future. You may not be able to sell your shares quickly or at the latest market price if trading in our stock is not active or the volume is low. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- results of or delays in efforts to seek regulatory approval for REMOXY, and in preclinical studies and clinical trials for our other drug candidates;
- publicity regarding actual or potential medical results relating to products under development by us or others;
- the status of our collaboration agreements;
- announcements of technological innovations or new commercial products by us or others;
- developments in patent or other proprietary rights by us or others;
- comments or opinions by securities analysts or major stockholders;
- future sales of our common stock by existing stockholders;
- developments with respect to potential merger and acquisition activity of companies with whom we have strategic alliances or other agreements;
- regulatory developments or changes in regulatory guidance enacted by applicable governmental or other authorities;
- litigation or threats of litigation;
- economic and other external factors or other disaster or crises;
- the departure of any of our officers, directors or key employees;
- period-to-period fluctuations in financial results; and
- limited daily trading volume.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act of 2010, SEC regulations and the rules of The NASDAQ Stock Market LLC, create uncertainty for public companies. If we were unable to continue to comply with these requirements, we could be delisted from trading on the NASDAQ Global Select Market, or Nasdaq, and thereafter trading in our common stock, if any, may be conducted through the over-the-counter or other market. As a consequence of such delisting, an investor would likely find it more difficult to dispose of, or to obtain quotations as to the price of, our common stock. Delisting of our common stock could also result in lower prices per share of our common stock than would otherwise prevail.

Anti-takeover provisions in our charter documents, our Stockholder Rights Plan and Delaware law may prevent or delay removal of incumbent management or a change of control.

Anti-takeover provisions of our amended and restated certificate of incorporation and amended and restated bylaws, our Stockholder Rights Plan and Delaware law may have the effect of deterring or delaying attempts by our stockholders to remove or replace management, engage in proxy contests and effect changes in control. The provisions of our charter documents include:

- a classified board so that only one of the three classes of directors on our board of directors is elected each year;
- elimination of cumulative voting in the election of directors;
- procedures for advance notification of stockholder nominations and proposals;
- the ability of our board of directors to amend our bylaws without stockholder approval; and
- the ability of our board of directors to issue up to 10,000,000 shares of preferred stock without stockholder approval upon the terms and conditions and with the rights, privileges and preferences as our board of directors may determine.

The rights issued pursuant to our Stockholder Rights Plan will become exercisable, subject to certain exceptions, the tenth day after a person or group announces acquisition of 15% or more of our common stock or announces commencement of a tender or exchange offer the consummation of which would result in ownership by the person or group of 15% or more of our common stock.

In addition, as a Delaware corporation, we are subject to Delaware law, including Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder unless certain specific requirements are met as set forth in Section 203.

These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

Volatility in the stock prices of other companies may contribute to volatility in our stock price.

The stock market in general, Nasdaq and the market for technology companies in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, there has been particular volatility in the market prices of securities of early stage life sciences companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management’s attention and resources.

Our share ownership is concentrated, and our officers, directors and principal stockholders can exert significant control over matters requiring stockholder approval.

Due to their combined stock holdings, our officers, directors and principal stockholders (stockholders holding greater than 5% of our common stock) acting collectively may have the ability to exercise significant influence over matters requiring stockholder approval including the election of directors and approval of significant corporate transactions. This concentration of ownership may delay or prevent a change in control of the Company and may make some transactions more difficult or impossible to complete without the support of these stockholders.

Publicly available information regarding stockholders' ownership may not be comprehensive because the SEC does not require certain large stockholders to publicly disclose their stock ownership positions.

Our operating results may fluctuate from quarter to quarter and this fluctuation may cause our stock price to decline.

Our quarterly operating results have fluctuated in the past and are likely to fluctuate in the future. Factors contributing to these fluctuations include, among other items, the timing and amounts of collaboration revenue recognized from King, the timing and enrollment rates of clinical trials for our drug candidates, our need for clinical supplies and the valuation of stock-based compensation. Thus, quarter-to-quarter comparisons of our operating results are not indicative of what we might expect in the future. As a result, in some future quarters our clinical, financial or operating results may not meet the expectations of securities analysts and investors that could result in a decline in the price of our stock.

There may not be an active, liquid trading market for our common stock.

There is no guarantee that an active trading market for our common stock will be maintained on Nasdaq. Investors may not be able to sell their shares quickly or at the latest market price if trading in our stock is not active.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***(Removed and Reserved)***

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

The following exhibits have been filed with this report:

Exhibit Number	Description of Document
3.1 (1)	Amended and Restated Certificate of Incorporation.
3.2 (2)	Amended and Restated Bylaws.
4.1 (1)	Specimen Common Stock Certificate.
4.2 (3)	Preferred Stock Rights Agreement, dated as of April 28, 2005 between Registrant and Mellon Investor Services LLC, including the Certificate of Designation, the form of Rights Certificate and Summary of Rights attached thereto as Exhibits A, B and C, respectively.
10.1	Lease agreement, dated as of February 14, 2011 between Registrant and StoneCliff Office, L.P.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from exhibits to our report on Form 10-Q for the period ended June 30, 2005.
(2) Incorporated by reference from exhibits to our report on Form 10-Q for the period ended March 31, 2005.
(3) Incorporated by reference from exhibits to our report on Form 8-K as filed with the Securities and Exchange Commission on May 3, 2005.

SIGNATURES

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

Pain Therapeutics, Inc.
(Registrant)

/s/ REMI BARBIER
Remi Barbier,
Chairman of the Board of Directors,
President and Chief Executive Officer

/s/ PETER S. RODDY
Peter S. Roddy,
Vice President and Chief Financial Officer

Date: April 27, 2011

EXHIBIT INDEX

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LEASE AGREEMENT
STONECLIFF OFFICE BUILDING

BASIC LEASE SUMMARY

The following Basic Lease Summary is incorporated into and made a part of this Lease. Each reference in this Lease to the Basic Lease Summary shall mean the respective information set forth below and shall be construed to incorporate all of the terms provided under the particular Lease paragraph(s) pertaining to such information.

IDENTIFICATION DATE OF LEASE: 12/28/10 [X]New [ ] Renewal [ ] Expansion [ ] Other

1. **Building:** StoneCliff **Building Address:** 7801 Capital of Texas Highway, Austin, TX 78731
2. **Lessor:** StoneCliff Office, L.P. **Lessor's Address:** 7200 N. Mopac, Ste. 400, Austin, TX 78731
3. **Suite Number(s):** 260
4. **Rentable Area (RSF):** 5,679 **Total Building SF:** 66,027 **Pro Rata Share:** 8.60 %
5. **Lessee:** Pain Therapeutics, Inc
   (a) Lessee is [ ] an individual(s), [ ] several individuals, [ ] a general partnership, [ ] a limited partnership, [X] a corporation, [ ] a joint venture, [ ] a limited liability company, [ ] a professional association, organized or chartered under the laws of the State of Delaware .
   (b) Lessee Address for Notice: 7801 Capital of Texas Highway, Ste. 260, Austin, TX 78731
   With copy to: 2211 Bridgepointe Parkway, Ste. 500, San Mateo, CA 94404
6. **Initial Lease Term:** Thirteen (13) full calendar months and Fifteen (15) days

Lease Commencement Date:	February 14, 2011	Base Rent Commencement Date:	May 1, 2011
Lease Anniversary Date:	May 1	Pass-Thru Rent Commencement Date:	January 1, 2012
Lease Expiration Date:	March 31, 2012		

7. **Base Rent:**

Term	Monthly Rent	Term Rent	Annual Rent psf
02/14/2011 to 04/13/2011	$ 0.00	$ 0.00	$ 0.00
04/14/2011 to 04/30/2011	$ 6,436.20	$ 6,436.20	$ 24.00
05/01/2011 to 03/31/2012	$ 11,358.00	$ 124,938.00	$ 24.00

Late Charge: Greater of $100.00 or 5% of Rent, assessed 5 business days after due date. Additional 1% daily charge begins the day after initial late charge up to a maximum 15 days.

After hours HVAC current charge per hour per zone: $25.00. Two-hour minimum.

8. **Pass-Thru Rent:**
   (a) Yearly Estimated Building Operating Expenses $0.00 per sq.ft./year
   (b) Less Yearly Expense Stop 2011 Base Year per sq.ft./year
   (c) Estimated Monthly Pass-Thru Rent (dollars) $0.00 per month
9. **Parking:** Number of Reserved Covered Spaces 2 Rate per Space $30.00/mo.

   Number of Unreserved Spaces: one space per 300 square feet of Lessee's Rentable Area, which shall include both reserved and unreserved parking spaces.
10. **Security Deposit:** (a) Total Amount: $11,358.00 To be paid by: [X] Check [ ] Letter of Credit
11. **Tenant Finish Out:** **See Exhibit E**

As Is:	[X] Yes [ ] No	TFO Allowance:	[N/A] Yes	[N/A] No:$ 0.00
Work completed by:	[N/A] Lessor [N/A] Lessee	Turnkey by Lessor: [N/A] Yes		[N/A] No
Plan Submission Date:	N/A			

12. **Special Conditions:** [X] Yes [ ] No **See Exhibit J**

13. **Lease Guaranty:** [ ] Yes [X] No **Intentionally Deleted**

Lessee _____
Lessor _____

INDEX TO LEASE AGREEMENT

LEASE AGREEMENT

This is a Lease Agreement hereafter referred to as "Lease" between Lessor and Lessee identified in the Basic Lease Summary, whether one or more.

1.1 Leased Premises.

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor the "Leased Premises". In addition, Lessee shall have the non-exclusive right to use the "Common Area" as described below.

(a) Leased Premises. "Leased Premises", to which Lessee shall have exclusive use rights, consists of the suite(s) specified in Basic Lease Summary #3, representing the office space outlined on the floor plan contained in Exhibit A. Such space is located in the Building on a tract of land, legally described in Exhibit B.

(b) Common Area. The "Common Area", to which Lessee shall have non-exclusive use rights, consists of (1) the interior common area located in the Building, i.e., areas normally accessible to tenants such as the hallways, stairwells, elevators, lobby, restrooms, and snack bar areas, and (2) the exterior common area located outside the Building on the above described land, i.e., loading areas, sidewalks, driveways, parking garage, parking areas, and other open areas (if any), subject to paragraph 9.2 on parking and Exhibit F-1 regarding parking rules.

1.2 Permitted Use.

The Leased Premises may be used only for general office purposes, and not for school, classroom or group training purposes.

1.3 Rentable Area.

Lessee's "Rentable Area" and "Pro Rata Share" is specified in Basic Lease Summary #4 and shall not be subject to adjustment after execution of this Lease.

2.1 Base Rent and Pass-Thru Rents.

Lessee shall pay Base Rent(s) per square foot of Rentable Area per calendar year as set forth in the Basic Lease Summary #7. As used in this Lease, the term "Rent" shall refer collectively to the Base Rent, Lessee's Pro Rata Share of Building Operating Expenses (hereafter referred to as "Pass-Thru Rent"), all other rental adjustments, and other charges of any kind, type or nature whatsoever.

Pass-Thru Rent (representing Lessee's Pro Rata Share of Building Operating Expenses over the Expense Stop as specified in Basic Lease Summary #8 shall be paid to Lessor in accordance with paragraph 32.1. Building Operating Expenses up to such Expense Stop amount shall be paid by Lessor.

3.1 Date and Place of Payment.

The monthly Base Rent and Pass-Thru Rent shall be due on the first (1st) day of each calendar month without demand. All Rent and other sums are due at the address designated in the Basic Lease Summary #2 or other location provided by Lessor. All sums due by Lessee are without right of offset or deduction. Monies mailed are considered timely paid only if received by Lessor by the due date. All other sums, besides Rent, shall be due upon delivery of written notice in accordance with paragraph 29.1.

3.2 Delinquent Payments.

If any Rent or other sum due by Lessee to Lessor is received and accepted by Lessor after the fifth (5th) business day of the month, Lessee shall pay a late charge "Late Charge(s)" equal to the amount specified in Basic Lease Summary #7 . Late Charges shall be considered liquidated damages for Lessor's time, inconvenience and overhead (except for attorneys fees and litigation costs) in collecting delinquent Rent. Lessor's acceptance of delinquent Rent or other sums shall not constitute permission for Lessee to pay the Rent or other sum late thereafter and shall not constitute a waiver of Lessor's remedies for subsequent delinquent payments. Late Charges are due immediately upon written notice or demand. All Late Charges shall be paid by check, money order or direct deposit on a national bank, not cash. For each returned check, Lessee shall reimburse Lessor for all applicable bank charges incurred by Lessor, plus $50.00. Payments of any kind received by Lessor on behalf of Lessee may be applied at Lessor's option to non-rent items first, then to Rent. Payment of Rent by Lessee shall be an independent covenant. If Lessee has not timely paid Rent and other sums due on two or more occasions in a calendar year, or if a check from Lessee is returned for insufficient funds, Lessor may, for the next 12 months, require that all Rent and other sums due be paid by cashier's check, certified check, or money order by delivering written notice to Lessee.

3.3 Security Deposit.

The total Security Deposit to be provided by Lessee to secure performance of Lessee's obligation under this Lease is specified in Basic Lease Summary #10 and must be paid at the time of execution of this Lease. Lessor shall have a lien on the Security Deposit for that purpose. If Lessee fails to pay Rent or other sums when due under this Lease, Lessor may apply any Security Deposit toward amounts due and unpaid by Lessee. Lessee shall, within ten (10) days after written demand from Lessor, restore the Security Deposit to its original amount. Lessee's failure to restore the Security Deposit within ten (10) days after demand shall constitute an event of default by Lessee hereunder without further notice being required, notwithstanding any other provisions of this Lease to the contrary. The Security Deposit may not be applied to the last month's Rent. The security deposit, less any amounts owed by Lessee with an itemized list of any deductions, shall be returned to Lessee within thirty (30) days after expiration of this Lease or any extensions thereof if a forwarding address was provided by Lessee to Lessor.

4.1 Term, Possession, and Anniversary.

The term of this Lease is identified in Basic Lease Summary #6. The Commencement Date of this Lease shall be the earlier of: (a) the Lease Commencement Date specified in Basic Lease Summary #6, or (b) the date Lessee opens for business in the Leased Premises. Lessor's anticipated delivery date of possession is the Lease Commencement Date specified in Basic Lease Summary #6. At the time Lessor delivers Premises to Lessee as described above, Lessor and Lessee agree to execute a Commencement Agreement on the form attached as Exhibit D. If the Lease Commencement Date occurs on a day other than the first day of a calendar month, then the Term of this Lease shall be extended such that it shall continue for the number of full calendar months set forth in Basic Lease Summary #6 plus the first partial calendar month following the Lease Commencement Date.

4.2 Acknowledgement of Lease.

At Lessor's option, Lessor and Lessee shall execute a recordable acknowledgment of this Lease which will confirm the actual Commencement Date, Lease Expiration Date, and Lease Anniversary Date. This executed acknowledgement will become part of the Lease.

4.3 Delivery of Possession.

Lessor shall deliver keys and/or access cards and possession of the Leased Premises to Lessee on or before the Commencement Date unless otherwise agreed in writing by the parties. Lessee shall not be liable for Rent until Lessor delivers possession of the Leased Premises to Lessee unless due to a Lessee Delay as provided in Exhibit E. If there is a delay in delivery of possession, Rent shall be abated until the Leased Premises is ready for occupancy; and neither Lessor nor Lessor's agents shall otherwise be liable for any damages; and the Lease shall not terminate.

5.1 Tenant Finish-Out.

Tenant Finish-Out Allowance ("TFO Allowance") and scope of work shall be as specified in Basic Lease Summary #11 and described in Exhibit E. Tenant Finish-Out construction shall, to the extent readily achievable, comply with state and federal architectural barrier standards.

6.1 Quiet Possession.

If Lessee is in compliance with all of Lessee's obligations under this Lease, Lessee shall be entitled to possession and quiet enjoyment of the Leased Premises, subject to the terms and conditions of this Lease. Lessee shall have access to the Building parking areas at all times, subject to parking fees and the rules referred to in paragraphs 9.2 and 23.1. Lessor shall make diligent efforts to have all other tenants in the Building comply with Building rules however, failure of other tenants to comply with such rules shall not be considered a default by Lessor. Construction noise or vibrations shall not be considered a violation of possession, quiet enjoyment or a constructive eviction and is not a default by Lessor, unless, however, such noise, vibrations, dust, smell, utility disruptions or other construction disturbances materially interferes with the Lessee's normal business operations and prevents Lessee from conducting business in the Premises or compromises the safety and health of its employees. Unless specifically provided in Exhibit E, Lessor shall have no obligation to make any modifications or improvements to the Leased Premises for the purposes of providing sound insulation to the Leased Premises or reducing the noise level from suites adjacent to the Leased Premises during the term of this Lease.

7.1 Utilities and Services by Lessor.

Except where otherwise stated in this Lease, Lessor shall pay for and furnish in a timely and diligent manner to Lessee the following utilities (subject to Lessee being required to pay for same directly to the utility provider as set forth in Section 7.2) and services and no others.

(a) Air conditioning and heating as reasonably required for comfortable use and occupancy under normal office conditions from 7:00 a.m. to 6:00 p.m. on Monday through Friday, and from 8:00 a.m. to 12:00 p.m. on Saturday, but not on Sunday, New Year's Day, Memorial Day, July 4th, Labor Day, Thanksgiving or Christmas Day and Eve, so long as these times and dates comply with present and future governmental laws or guidelines, including utilities such as electricity, gas, and water necessary for operation of same; Leases only

(b) water and wastewater services;

(c) janitorial and cleaning services five days a week, other than holidays, for building standard installations;

(d) electricity for standard office equipment and lighting;

(e) trash collection services (dumpster or garbage cans);

(f) pest control services as needed in the reasonable judgment of Lessor;

(g) landscaping and parking lot maintenance services;

(h) reasonable repair and maintenance services pursuant to paragraph 8.1;

(i) replacement of fluorescent light bulbs and ballasts in Building Standard lighting fixtures (but not incandescent light bulbs for nonstandard fixtures or for Lessee's lamps); and

(j) elevator service, if there is an elevator in the Building.

7.2 Utilities and Services by Lessee.

If applicable, Lessee shall pay for all utilities and services not expressly furnished by Lessor under paragraph 7.1. Lessee shall pay for all electricity consumed through any individual electrical meter(s) or sub-meter(s) serving solely the Leased Premises. Costs of such utilities are not considered Building Operating Expenses to be allocated among all tenants. Lessor reserves the right to require Lessee to sub-meter electricity. Any electricity sub-metering shall be billed to and paid by Lessee at Lessor's average cost per KWH. If Lessee has an excessive number of persons or heat-generating equipment in the Leased Premises which overloads the capacity of the Building's HVAC system or interferes with such systems' ability to perform adequately, Lessor may require Lessee to install and maintain supplementary HVAC systems, if reasonably feasible, at Lessee's sole expense.

7.3 Interruption of Utilities or Services.

Temporary interruption or malfunction of utilities, services, and/or telephones shall not render Lessor liable for damages, Rent abatements, or release of any Lessee obligation. Lessor shall use diligent efforts to have such utilities and services restored as soon as reasonably possible.

7.4 Extra Electricity.

There shall be no extra electricity charges for printers, desktop or laptop computers, typewriters, facsimile machines, standard business copiers or other standard 110 volt office equipment in quantities commensurate with normal office use. However, Lessee shall pay Lessor monthly, as billed, for charges which are separately metered or which Lessor may reasonably compute for electricity utilized by Lessee for the following purposes: high consumption medical equipment, 220 volt equipment excluding one standard business copier, excessive computers and servers (other than standard desktop, laptop or word processor computers), supplementary HVAC installed due to Lessee's excessive occupant or equipment load, and other electrical service not standard for the Building, or any other items not considered Building Standard. Lessee shall pay for installation of any sub-meters to measure consumption of such extra electricity, if reasonably required.

7.5 After-hours Heating or Air Conditioning.

If Lessee requests air conditioning or heating after standard business hours for their Leased Premises as set forth in paragraph 7.1(a), Lessor may charge Lessee for after-hours air conditioning or heating. The after-hours hourly charge per zone for the Building, which may change periodically throughout the Lease Term, is specified in Basic Lease Summary #7.

8.1 Maintenance and Repairs by Lessor.

Lessor shall repair and/or replace, as needed, the following items as a Building Operating Expense under Exhibit C, so long as they are Building Standard items: light bulbs, ballasts, and light fixtures; Common Area plumbing; hardware; doors; and wall and window coverings. Lessor shall use diligence to provide for the reasonable cleaning, maintenance, repairs, reconnection of interrupted utilities or services, and landscaping of Common Areas, subject to any reimbursement obligations of Lessee under paragraph 8.2. Lessor may temporarily close any part of the Common Areas if reasonably necessary for repairs or construction. Repairs and maintenance shall be in accordance with applicable governmental requirements.

8.2 Maintenance and Repairs by Lessee.

Lessee shall promptly reimburse Lessor for the cost of maintaining, repairing or replacing non-building standard items (including supplemental HVAC units) and the cost of repairing or replacing damage which is known to be directly caused inside the Leased Premises by Lessee, Lessee's agents, employees, family, or licensees, invitees, visitors, or customers or outside the Leased Premises by Lessee or Lessee's employee's, agents, or contractors. **Kitchen appliances, wetbars, sump pumps, and hot water heaters in the Leased Premises, and plumbing in the Leased Premises serving same are not considered Building standard items.** Cost of repair, if performed by Lessor, shall include a 5% supervision fee. Lessor may require advance payment prior to repair or replacement. Lessor must approve all repairmen or maintenance personnel prior to work commencement if work is to be performed by Lessee's contractor. Lessee shall not damage or allow other persons listed above to damage any portion of the Leased Premises, the Building or Common Area. Lessee shall reimburse Lessor for replacement of all non-Building standard light bulbs and for unstopping any drains or water closets in the Leased Premises. If Lessee or Lessee's workmen or contractors are permitted to repair, alter, or modify the Leased Premises, Lessee shall warrant that no mechanic or materialman's lien shall be filed against the Leased Premises and that all such contractors shall provide evidence of liability insurance as required by Lessor. All such work shall be in accordance with applicable governmental requirements.

8.3 Telecommunications.

All telecommunications equipment and wiring necessary to serve Lessee shall be installed and located in the Leased Premises at Lessee's sole cost. **Lessee will be required to remove all telecommunications equipment installed by Lessee from the Leased Premises upon expiration of Lease or Lessor may deduct costs to remove it from the Security Deposit.** Lessee may be allowed to leave equipment and cabling in Leased Premises if written approval from Lessor is obtained prior to expiration of the Lease. Lessee's telephone contractors may attain access to Building wiring closets with reasonable advance notice to Lessor.

9.1 Access, Keys, Locks, and Security.

(a) Access. Lessee shall have access to the Leased Premises at all times. Lessor shall have access to the Leased Premises at reasonable times for reasonable business purposes. Lessor may show the Leased Premises six months before the Lease Expiration Date or the date Lessee gives notice of intent to vacate, whichever is earlier.

(b) Keys. Lessor shall furnish Lessee keys and access cards for the Leased Premises and main exterior entry doors of the Building if such door is locked after hours, and 1 key to Lessee's mailbox. Additional or replacement keys and access cards shall be furnished at the same cost charged to all other tenants in the Building at the time of Lessee's request. Lessor shall not be liable for risk of loss resulting from Lessee's keys and access cards being stolen, lost or used by unauthorized persons. Lessor reserves the right to re-key or change locks for security reasons if new keys are timely furnished to Lessee.

(c) Locks. Lessee may not add, change, or re-key locks in or to the Leased Premises or Building without prior written permission of Lessor. Locks may be changed by Lessee's contractor with written Lessor approval but Lessor may specify kind and brand of locks, placement, installation, master key compatibility, etc. If Lessee or any of Lessee's employees lock themselves out of the Leased Premises, neither Lessor nor Lessor's agents are authorized to unlock a door except for emergency or cleaning purposes.

(d) Security. Lessor shall have no duty to provide any security services of any kind unless expressly provided in this Lease. Lessor shall not be liable to Lessee or Lessee's employees, family, customers, invitees, contractors or agents or for injury, damage, or loss to person or property caused by criminal conduct of other persons, including theft, burglary, assault, vandalism or other crimes. Lessee shall lock the doors of the Leased Premises after regular business hours or anytime the Leased Premises is not reasonably occupied. If such actions do not unreasonably interfere with Lessee's occupancy, Lessor may take reasonable measures that Lessor deems advisable for the security, safety, improvement, and preservation of the Building. Lessee shall not install any security access equipment to the Leased Premises without Lessor's prior review of plans and written approval, which approval or non-approval will not be unreasonably withheld and will be provided within three (3) business days of Lessee's written request for Lessor's review and approval, Lessor shall allow Lessee to install video and/or sound security systems at its own expense within the Leased Premise. **Lessee will be required to remove all security system equipment (including any access or video equipment installed by Lessee) and cabling from the Leased Premises upon expiration of Lease unless written approval is received from Lessor to the contrary.**

9.2 Parking.

(a) Lessor shall have sole control over parking. Parking rules, if applicable, are contained in attached Exhibit F-1. There shall be no more than two (2) reserved parking spaces unless agreed in writing by Lessor.

(b) Lessee shall be entitled to parking spaces as specified in Basic Lease Summary #9. Lessee hereby represents to Lessor that Lessee's use of the Leased Premises will at no time exceed the amount of such parking allocation. In the event the use of parking facilities by Lessee's employees, visitors, customers and invitees at any time exceeds their allocation, Lessor shall have the right to require Lessee to make alternate parking provisions off-site, at Lessee's sole cost and expense, for all of such excess parking. Lessee's failure to comply with the provisions of this paragraph will constitute a default under this Lease, provided however that Lessor shall not be required to give Lessee written notice or the opportunity to cure violations of this paragraph more than three (3) times during the term of this Lease.

10.1 Occupancy, Nuisance, and Hazards.

The Leased Premises shall be occupied only by Lessee or Lessee's employees and invitees and shall not be left entirely vacant or used exclusively for storage without prior written approval of Lessor. Lessee and Lessee's agents, employees, family, licensees, invitees, visitors, and contractors shall comply with all federal, state, and local laws relating to occupancy or to criminal conduct while such persons are on the Leased Premises. Lessee and the persons listed above shall not (1) use, occupy, or permit the use or occupancy of the Leased Premises for any purpose which is directly or indirectly forbidden by such laws or which may be dangerous to life or property, (2) permit any public or private nuisance, (3) disturb the quiet enjoyment of other tenants, (4) do anything which might emit offensive odors or fumes, (5) make undue noise or vibrations, (6) permit anything which would cancel insurance coverage or increase the insurance rate on the Building or contents, or (7) otherwise damage the Leased Premises, Building, or Common Area.

11.1 Taxes.

Lessor shall be responsible for payment of all taxes and assessments against the Building subject to Lessee's obligation to pay Lessor for Lessee's share thereof, pursuant to Exhibit C. Lessee shall timely pay all taxes assessed against Lessee's furniture, equipment, fixtures, or other personal property in the Leased Premises.

12.1 Insurance.

Lessor and Lessee shall comply with the respective insurance obligations as set forth below:

(a) Lessor. Lessor shall maintain (1) fire and extended coverage insurance, including vandalism and malicious mischief, on the Building, and (2) commercial general liability insurance. The amounts shall be as required by Lessor's mortgagee or as Lessor may deem reasonably appropriate, whichever is greater. Lessor shall have no responsibility to maintain fire and extended coverage insurance on Lessee's contents. The portion of Lessor's insurance premiums reasonably due to Lessee's acts or omissions or Lessee's special use, improvements, or tenant finish-out (over and above Lessee's normal use as contemplated in paragraph 1.1(a)) shall be paid for by Lessee.

(b) Lessee. Lessee shall provide Lessee's own general liability insurance for its operations on the Leased Premises in an amount not less than $1,000,000. Upon written notice by Lessor to Lessee, such dollar amount of Lessee's liability policy shall be increased by the amount of any increase required by Lessor's carrier for "primary coverage" under an umbrella liability policy. Lessee is required to maintain adequate fire and extended coverage insurance (including theft, vandalism and malicious mischief) on the contents in the Leased Premises, including fixtures, furniture, equipment, supplies, inventory, and other personal property. Such property is not covered by Lessor's insurance.

(c) Insurance certificates. **Lessee shall provide Lessor with a current certificate of Lessee's insurance or a copy thereof as required above prior to occupancy of the Leased Premises or any portion thereof and throughout the duration of the Lease Term.** Lessor and Lessor's managing agent (if any) shall be named as additional insureds on Lessee's liability insurance policy. Upon written request by Lessor, changes in the name of Lessor or Lessor's managing agent shall be reflected on such certificate.

(d) Notice from Lessee's Insurance Carrier. All policies of insurance to be provided by Lessee shall contain a provision (to the extent legally permitted) that the insurance company shall give Lessor 10 days' written notice to Lessor, before the effective date of cancellation if the insurance company cancels for non-payment, and 30 days before the effective date of cancellation if the policy is cancelled for any other reason

12.2 Waiver of Subrogation.

(a) If waiver of subrogation is not contained in the form language of the insurance policy, Lessor requires that the Lessee's fire, casualty, or liability insurance policy contain a waiver of subrogation clause. For purposes of waiver of subrogation, Lessor and Lessee release each other and their respective officers, directors, employees, and agents from any claims based on negligence or otherwise, for loss, damage, or injury which occur hereafter and are insured against by the releasing party under insurance policies carried by Lessor and/or Lessee. The foregoing shall not apply to losses, damages, or injuries that are in excess of policy limits or that are not covered due to a deductible clause in the policy.

(b) Upon written request, Lessor and Lessee shall furnish to each other copies of the policies of insurance referred to in this Lease, including any waivers of subrogation, or satisfactory evidence of same.

12.3 Hold Harmless and Indemnity.

To the extent that it is not covered by Lessor's insurance, Lessee shall indemnify Lessor for and shall hold Lessor harmless from all fines, claims, liabilities, and suits (including costs and expenses of defending against same) resulting from any breach or nonperformance of the Lease by Lessee or Lessee's agents, employees, family, licensees, or invitees. To the extent that it is not covered by Lessee's insurance, Lessor shall indemnify Lessee for and shall hold Lessee harmless from all fines, claims, liabilities, and suits (including costs and expenses of defending against same) resulting from any breach or nonperformance of the Lease by Lessor or Lessor's agents, employees, family, licensees, or invitees. To the extent that it is covered by Lessor's insurance, Lessor and Lessee shall not be liable to the other or the other's agents, employees, or family for any damage to personal property resulting from any act, omission, or negligence of any other tenant, visitor, or occupant of the Building. This paragraph shall survive termination or expiration of this Lease.

13.1 Alterations by Lessee.

Lessee may not make any alterations, improvements, door lock changes, or other modifications of any kind to the Leased Premises without Lessor's prior written consent. Consent for governmentally required changes may not be unreasonably withheld. "Alterations" include, but are not limited to, improvements glued, screwed, nailed, or otherwise permanently attached to the Building, structural changes, roof and wall penetrations, and all plumbing, electrical, and HVAC changes. Requests for Lessor's approval shall be in writing and shall be detailed to Lessor's reasonable satisfaction. The foregoing shall be done only by Lessor's contractors or employees or by third parties approved by Lessor in writing within three (3) business days. Lessee may be required to pay Lessor in advance for any requested alterations, improvements, lock changes, or other modifications which are approved and performed by Lessor. If same are performed by Lessee with Lessor's written permission, Lessee shall not allow any liens to be placed against the Building as a result of such additions or alterations. Alterations, improvements, and modifications done at Lessee's request shall comply with all applicable laws. Changes in Lessee's alterations or improvements in Leased Premises which may be later required by governmental action shall also be paid for by Lessee. Lessee shall pay Lessor a 10% administrative/supervision fee if Lessor contracts on Lessee's behalf for any work to be done for Lessee and paid directly by Lessor to such contractors.

13.2 Americans With Disabilities Act.

Lessor shall be responsible for any requirements under the Americans with Disabilities Act or similar state or local laws as relate to any Common Area entrance and exit doorways and elevators and any doors into the Leased Premises and to structural building items that Lessor is required to maintain under the terms of this Lease. Lessor agrees to indemnify Lessee for any liability Lessee shall incur as a result of Lessor's failure to comply with the provisions of this paragraph. Lessee agrees to cooperate fully with Lessor to enable Lessor to timely comply with the provisions of this paragraph and to immediately forward to Lessor any notice Lessee receives regarding complaints, injuries, or claims by anyone claiming that those items which are the responsibility of Lessor do not comply with the provisions of the Americans with Disabilities Act. Lessee shall be responsible for any requirements under such architectural barrier laws as they relate to Lessee's use of the Leased Premises, including, but not limited to, the positioning of Lessee's furnishings within the Leased Premises. Lessee agrees to indemnify Lessor for any liability Lessor shall incur as a result of Lessee's failure to comply with the provisions of this paragraph.

14.1 Removal of Property by Lessee.

Lessee may remove its trade fixtures, furniture, and equipment only if (1) such removal is made prior to the end of the Lease Term, (2) Lessee is not in default under this Lease at time of removal, and (3) such removal is not in anticipation of an early move-out prior to the end of the Lease Term. Lessee shall pay all costs of removal. Lessee shall have no rights to property remaining in the Leased Premises after the Lease Expiration Date. Lessee may not remove any alterations as defined in paragraph 13.1 or improvements such as wall-to-wall carpeting, window blinds,

built-in cabinets, paneling, counters, kitchen or breakroom built-ins, shelving, wall covering, and anything else attached to the floor, walls, or ceilings. **If and only if Lessor requests in writing, no later than one month after Lessee vacates the Leased Premises, Lessee shall remove any alterations, fixtures, equipment, cabling, and other property installed by Lessee or Lessee's contractors.** Lessee shall pay for cleaning or repairing damage caused by Lessee's removal of any property.

15.1 Subletting and Assignment.

(a) Lessee may not sublet, assign, pledge, or mortgage this Lease and may not grant licenses, commissions, or other rights of occupancy to all or any part of the Leased Premises without Lessor's prior written approval which shall not be unreasonably withheld. Lessee shall submit a copy of the proposed sublease and sublessee's financials; and Lessor shall have 15 days to approve or not approve the sublease. If Lessor does not timely approve the sublease, it shall be deemed disapproved. Sublessee's financial strength, reputation, personnel, and length of sublease or assignment shall be important factors in Lessor's approval. Sale, transfer, or merger of the majority of the voting shares or voting partnership interests in Lessee (if a corporation or partnership) shall be considered an assignment; likewise for admission of a new general partner. However, if Lessor gives such approval, Lessor shall be entitled to (1) 50% of any excess between Lessee's Rent per square foot under the Lease and the Rent per square foot under the sublease or assignment, and (2) 50% of any other consideration flowing directly or indirectly from the subletting or assignment of the Premises or a portion thereof . The foregoing is in consideration of additional management performed or to be performed by Lessor under such sublease or assignment. In addition to the foregoing, Lessor may charge Lessee a one-time administrative fee equal to $500 for such additional administrative, legal, investigative, and management services.

(b) Violation of this Lease by sublessees or assignees shall be deemed a violation by Lessee. Approval by Lessor of any sublease or assignment shall not release Lessee from any obligation under this Lease and shall not constitute approval for subsequent subletting or assignment. Sublessees or assignees shall be liable for all of Lessee's obligations under this Lease unless otherwise specified in writing. Upon default by Lessee, any sublessee shall pay all sublease rentals and other sums due Lessor, direct to Lessor, to be credited against sums owed to Lessor by Lessee under this Lease. Unless otherwise agreed in writing, no sublease or assignment shall be valid unless (1) a copy of this Lease is attached thereto, (2) the sublessee or assignee agrees in writing to be liable for all of Lessee's obligations under this Lease, and (3) Lessor's written approval is attached to the sublease or assignment.

(c) At any time, Lessor may, at Lessor's option, release Lessee from further liability for all or any portion of the Leased Premises that has been subleased or assigned to a third party; and Lessor may terminate the Lease to the extent that it applies to such space. If the Lease or a portion of it is so terminated, Lessee shall remain liable for Rents and Building Operating Expenses accrued through the effective termination date, including any year-end adjustment of such expenses; and this obligation shall survive any termination or release unless it is expressly waived in the termination or release agreement.

16.1 Destruction by Fire or Other Casualty.

(a) Total destruction, Rent abatement, and restoration. If the Leased Premises is totally damaged by fire or other casualty so that it cannot reasonably be used by Lessee and if this Lease is not terminated as provided in subparagraph (d) below, there shall be a total abatement of Lessee's Rent and Lessee's obligation to pay Building Operating Expenses until the Leased Premises is restored by Lessor.

(b) Partial destruction, Rent abatement, and restoration. If the Leased Premises is partially destroyed or damaged by fire or other hazard so that it can be only partially used by Lessee for the purposes allowed in this Lease and if this Lease is not terminated as provided in subparagraph (d) below, there shall be a partial abatement of Lessee's Rent and Lessee's obligation to pay Building Operating Expenses which fairly and reasonably corresponds to the extent to which the Leased Premises cannot reasonably be used by Lessee for the normal conduct of its business, until such time as Leased Premise, access, building services, common areas and utilities are all in substantially the same condition in which they existed prior to the casualty.

(c) Restoration. Lessor's obligation to restore shall be limited to the condition of the Leased Premises, to substantially the same condition in which the Leased Premises, access, building services, common areas and utilities existed prior to the casualty. Lessor shall proceed with diligence to restore. During restoration, Lessee may continue business to the extent practical in Lessee's sole and reasonable judgment.

(d) Lease termination. If the Leased Premises or the Building is so badly damaged that restoration and repairs cannot be completed to substantially the same condition in which the Leased Premises, access, building services, common areas and utilities existed prior to the casualty within three (3) months after the fire or casualty, then this Lease may be terminated as of the date of the destruction by either Lessor or Lessee by serving written notice upon the other. Termination notice must be delivered within one month after the casualty.

17.1 Condemnation.

If the Leased Premises, Building, or the Common Area or any material portion thereof, including any portion of the parking lot is taken by condemnation and if the Leased Premises is thereby reasonably rendered unusable for Lessee's business use and activities, this Lease shall automatically terminate as of the date title vests in the condemning authority pursuant to such taking or acquisition; and Lessor and Lessee shall be relieved of all further obligations under this Lease. Lessor shall be entitled to recover from the condemning authority the full amount of Lessor's interest in this Lease and in the property which is taken in condemnation; provided, however, if Lessee is not in default hereunder on the day of taking or acquisition by the condemning authority, Lessee shall be allowed to recover from the condemning authority, at Lessee's own expense, Lessee's trade fixtures, if any, which are taken in condemnation; but not otherwise. Lessee shall be responsible for Lessee's own attorney's fees and for proving its own damages.

18.1 Default by Lessor.

Lessee shall be entitled to recover actual damages if (1) Lessor fails to pay any sum due and owing to Lessee within seven (7) business days after written demand from Lessee, or (2) Lessor remains in default on any other obligation for seven (7) business days after Lessee's written demand for performance. However, Lessor shall not be in default if Lessor promptly commences to cure such noncompliance and diligently proceeds in good faith to cure same after receiving written notice of such default. If taxes and utilities are not timely paid, Lessee may pay same to the extent that it is necessary to avert foreclosure or cutoff. If Lessor fails to perform any covenant, term or condition of this Lease that Lessor is obligated to perform and, as a consequence of such nonperformance, Lessee shall recover a money judgment against Lessor, such judgment shall be satisfied only out of Lessor's equity in the property. Lessor shall have no liability whatsoever for any deficiency, and no other property or assets of Lessor shall be subject to levy, execution or other enforcement procedures as a result of such judgment.

19.1 Default by Lessee.

If Lessee defaults, Lessor shall have any or all remedies set forth below.

(a) Definition of default. The occurrence of any of the following shall constitute a default by Lessee: (1) failure to pay Rent or any other sum due by Lessee under this Lease within three (3) business days after written demand therefor by Lessor; (2) failure to vacate on or before the last day of the Lease Term, renewal term, or extension period; (3) failure to pay Rent in advance on a daily basis in the event of unlawful holdover by Lessee; (4) unauthorized early move-out or notice of same as set forth below; (5) acquisition of Lessee's interest in the Lease by a third party by judicial or non-judicial process; or (6) failure to comply with any other provision of the Lease (including rules) if such failure to comply is not cured as soon as possible after delivery of written notice by Lessor to Lessee. However, Lessee shall not be in default under subclause six (6) above if Lessee promptly commences to cure such noncompliance and diligently proceeds in good faith to cure same after receiving written notice of such default and such default is completely cured within ten (10) business days of such written notice.

(b) Termination of possession. If Lessee is in default as defined in subparagraph (a) above and if Lessee remains in default for three (3) business days after Lessor gives notice of such default to Lessee, or if Lessee abandons the Leased Premises without prior written approval of Lessor, Lessor may (with or without demand for performance) terminate Lessee's right of possession by giving one (1) day's written notice to vacate; and Lessor shall be entitled to immediate possession without termination of Lessee's obligations under the Lease. Lessor's repossession shall not be considered an election to terminate this Lease unless written notice of such intention to terminate is given to Lessee by Lessor. Repossession may be by voluntary agreement or by eviction lawsuit. Commencement of an eviction lawsuit shall not preclude other Lessor remedies under this Lease or other laws.

(c) Reletting costs. If Lessee is in default under this Lease and if Lessor terminates Lessee's right of possession without terminating this Lease and Lessee's Leased Premises is released, Lessee shall pay upon Lessor's written demand the following: (1) all costs of reletting (which in no event shall be less than one month's Rent), including leasing commissions, Rent concessions (whether in the form of assuming or buying out lease remainders elsewhere, free Rent for a period of time, or reduced rental rates), utilities during the vacancy, advertising costs, administrative

overhead, and all costs of repair, remodeling, or redecorating for replacement tenants in the Leased Premises, (2) all Rent and other indebtedness due from Lessee to Lessor through the date of termination of Lessee's right of possession, and (3) all Rent and other sums required to be paid by Lessee during the remainder of the entire Lease Term, subject to mitigation by Lessor described in subparagraph (d) below.

(d) Mitigation by Lessor. Upon eviction or voluntary vacation of the Leased Premises by Lessee without the Lease being terminated by Lessor, Lessor shall make reasonable efforts to relet the Leased Premises. After deduction of reasonable expenses incurred by Lessor, Lessee shall receive credit for any Rent received by Lessor through reletting the Leased Premises during the remainder of the Lease Term or renewal or extension period. Such deductible expenses may include real estate commissions, attorney's fees, and all other expenses in connection with reletting. Lawsuit to collect amounts due by Lessee under this Lease may be brought from time to time on one or more occasions without the necessity of Lessor's waiting until the expiration of the Lease Term. If judgment for accelerated Rents is recovered, Lessor shall give credit against such judgment for subsequent payments made by Lessee and subsequent Rent received by Lessor from other tenants of the Leased Premises, less lawful deductions and expenses of reletting.

(e) Termination of Lease. Lessor may terminate this Lease (as contrasted to termination of possession rights only) upon default by Lessee or at any time after Lessor's lawful re-entry or repossession following default by Lessee. Lessor's agents have authority to terminate the Lease only by written notice given pursuant to paragraph 29.1. After termination, Lessee shall remain liable to Lessor for all sums accruing and unpaid prior to termination and any year-end adjustments of Building Operating Expense, prorated through the date of termination.

(f) Damages. In addition to other remedies, Lessor may recover actual damages incurred.

20.1 Lien for Rent.

(a) Notwithstanding anything to the contrary in this Lease, Lessor's landlord lien shall be subordinate to any existing security interest and any future purchase money security interests on Lessee's personal property if such security interest is properly perfected and timely recorded as required by the Texas Business and Commerce Code. Lessor shall cooperate in signing lien subordinations in accordance with the foregoing. Any lien subordination shall be on forms reasonably acceptable to Lessor.

(b) Subject to the limitations of subparagraph (a) above, Lessee gives to Lessor a contractual lien on all of Lessee's real property which may be found on the Leased Premises to secure payment of all monies and damages owed by Lessee under the Lease. Such lien also covers all insurance proceeds on such property. Lessee shall not remove such real property while Rent or other sums remain due and unpaid to Lessor and such property shall not be removed until all Lessee's obligations under the Lease have been complied with. This lien is in addition to Lessor's statutory lien under Section 54.021 of the Texas Property Code. If Lessee is in default for nonpayment of Rent or any other sums due by Lessee, Lessor's representatives may peacefully enter the Leased Premises and remove and store all property. If Lessor removes any property under this lien, Lessor shall leave the following information in a conspicuous place inside the Leased Premises: (1) written notice of exercise of lien, (2) a list of items removed, (3) the name of Lessor's representative who removed such items, and (4) the date of such removal. Lessor shall be entitled to reimbursement of reasonable charges for packing, removing, or storing abandoned or seized property, and may sell same at public or private sale (subject to any properly recorded chattel mortgage or recorded financing statement) after one month's written notice of time and place of sale is given to Lessee by certified mail, return receipt requested.

21.1 Attorney's Fees, Interest, and Other Expenses.

If Lessee or Lessor is in default and if the non-defaulting party places the Lease in the hands of an attorney in order to enforce lease rights or remedies, the non-defaulting party may recover reasonable attorney's fees from the defaulting party even if suit has not been filed. In any lawsuit enforcing lease rights, the prevailing party shall be entitled to recover reasonable attorney's fees from the non-prevailing party, plus all out-of-pocket expenses. Trial shall be to judge only. All delinquent sums due by Lessor or Lessee shall bear interest at the maximum lawful rate of interest, compounded annually, from date of default until paid, plus any Late Charges. Late Charges shall be considered reasonable liquidated damages for the time, trouble, inconvenience, and administrative overhead expense incurred by Lessor in collecting late Rent, such elements of damages being uncertain and difficult to ascertain. Late Charges shall not be liquidated damages for attorney's fees or for Lessor's loss of use of such funds during the time of delinquency. Whenever Lessee requests Lessor to take any action or give any consent required or permitted under this Lease, Lessee will reimburse Lessor for Lessor's reasonable costs incurred in reviewing the

proposed action or consent, including reasonable attorneys', engineers', or architects' fees, within 10 days after Lessor's delivery to Lessee of a statement of such costs. Lessee will be obligated to make such reimbursement without regard to whether Lessor consents to any such proposed action.

22.1 Nonwaiver.

The acceptance of monies past due or the failure to complain of any action, non-action, delayed payment, or default, whether singular or repetitive, shall not constitute a waiver of rights or obligations under the Lease. Lessor's or Lessee's waiver of any right or any default shall not constitute waiver of other rights, violations, defaults, or subsequent rights, violations, or defaults under this Lease. No act or omission by Lessor or Lessor's agents shall be deemed an acceptance or surrender of the Leased Premises, and no agreement by Lessor to accept a surrender of the Leased Premises shall be valid unless it is in writing and signed by a duly authorized agent of Lessor.

23.1 Building Rules.

Lessee will comply with Lessor's rules for the Building which are attached as Exhibit F-2. The rules are subject to reasonable change if the changes are applicable to all tenants of the Building and notice has been reasonably provided. Separate parking rules are contained in paragraph F-1. **Lessee agrees to provide a copy of the Building Rules (Exhibit F-2) to each of Lessee's employees.**

24.1 Transfer of Ownership by Lessor.

If Lessor transfers ownership of the Building (other than as security for a mortgage) and if Lessor has delivered to the transferee all of Lessee's Security Deposits and any prepaid Rents, Lessor shall be released from all liability under the Lease; and such transferee shall become liable as Lessor. Such right to be released of liability shall accrue to subsequent owners only if such transfer is in good faith and for consideration.

25.1 Mortgages.

Unless otherwise provided in this Lease, Lessee shall subordinate and attorn to mortgage liens now or hereafter on the Building. Lessee agrees to execute, from time to time, documentation therefore which is necessary in the reasonable judgment of Lessor. This Lease shall be subordinate to all existing and future mortgages. However, such mortgagees may at any time subordinate their lien to this Lease by filing a subordination notice in the county real property records without necessity of notice to Lessee. Lessee waives and holds any mortgagee or holder of a security interest harmless from all claims of Lessee against Lessor arising prior to such mortgagee succeeding to the Lessor's ownership interest in the property.

If requested in writing by Lessor, Lessee shall not seek to enforce any remedy it may have for any default on the part of Lessor without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Lessor's Mortgagee (defined as the mortgagee under any such mortgage) whose address has been given to Lessee, and affording such Mortgagee a reasonable opportunity to perform Lessor's obligations under this Lease.

26.1 Surrender of Leased Premises.

Upon expiration or early termination of this Lease, Lessee shall surrender the Leased Premises in the same condition as on the date of Lease Commencement by Lessee (as changed or improved from time to time in accordance with this Lease), less ordinary wear and tear from ordinary use Removal of property from the Leased Premises is subject to paragraph 14.1. Upon surrender, Lessee must provide Lessor with all of Lessee's keys and access cards to the Building and Leased Premises and the combination to all safes and vaults, if any in the Leased Premises. Lessor may charge Lessee for any lost keys and access cards not surrendered at lease expiration.

27.1 Holding Over.

If Lessee remains in possession of the Leased Premises after the expiration or mutually-agreed termination date of the Lease, without the execution by Lessor and Lessee of a new Lease or a renewal or extension of the Lease, then (1) Lessee shall be deemed to be occupying the Leased Premises as a tenant-at-sufferance on a daily basis, subject to all obligations of the Lease, (2) Lessee shall pay Rent for the entire holdover period at the rate of 150% of the then-current rental rate under this Lease or 150% of the then-current market rental rate for the space as reasonable determined by Lessor, whichever is greater, (3) Lessee shall be subject to all other remedies of Lessor as provided in paragraph 19.1, (4) Lessee shall indemnify Lessor and/or prospective tenants for damages, including lost rentals, storage expenses, and attorney's fees, and (5) at Lessor's sole option, Lessee may extend the Lease Term for a period of one month at the rate of 150% of the then-current rental rate under this Lease or 150% of the then-current market rental rate for the space as reasonably determined by Lessor, whichever is greater, by giving written notice to Lessee or to the Leased Premises while Lessee is holding over. Holdover Rents shall be immediately due on a daily basis

and delinquent without notice or demand; and the prior written notice and waiting period requirements of this Lease shall not be necessary in order for Lessor to exercise remedies thereunder.

28.1 Signs and Building Name.

There shall be no signs, symbols, or identifying marks on or in the Building, halls, elevators, staircases, entrances, parking areas, landscape areas, doors, walls, or windows without prior written approval of Lessor, provided, however, that Lessee may prominently display its company signage inside the Leased Premise. Lessor shall provide and pay for the initial Building standard suite sign and directory strip. **If the Lease Term is less than 12 months, the cost of initial suite signage for Lessee's space and initial directory strip shall be at Lessee's expense**. All signs or lettering shall conform to the sign and lettering criteria established by Lessor. Unless otherwise stated in the rules, suite signage and Building directory changes shall be done exclusively by Lessor and at Lessee's expense. Lessor may remove all unapproved signs without prior notice to Lessee and at Lessee's expense. Lessor may change the name of the Building upon six months' written notice to Lessee. Lessee name on suite sign and directory strip must be the same entity that is Lessee on the Lease Agreement or a registered/filed assumed business name.

29.1 Notices.

Whenever written notice is required or permitted under this Lease, such notice shall be in writing and shall be either (a) hand delivered personally to the party being notified, (b) hand delivered to or inside such party's mailing address, (c) delivered by fax provided there is a fax transmittal confirmation, or (d) delivered at such party's mailing address by overnight commercial courier or by certified mail, return receipt requested. The notice address of Lessor shall be the address to which Lessee normally mails or delivers the monthly Rent unless Lessor notifies Lessee of a different address in writing. The notice address of Lessee shall be the address set forth in 5(b) of the Basic Lease Summary under this Lease. However, if Lessee vacates the Leased Premises, it shall be Lessee's last address known by Lessor. Hand delivered notice is required only when expressly required in the Lease. Notice by non-certified mail is sufficient if actually received by the addressee or an employee or agent of addressee. The term "notice" shall be inclusive of notices, billings, requests, and demands.

30.1 Estoppel Certificates.

From time to time, upon seven (7) days' prior written request from Lessor, Lessee shall execute and deliver to Lessor an estoppel certificate in a form similar to the attached as Exhibit G. The form in Exhibit G may be changed as reasonably required by a prospective purchaser or lender. If any statement in the estoppel certificate form is contrary to the facts existing at the time of execution of such form, Lessee may correct same before signing. Reasonable modifications in the form may be made as requested by a prospective lienholder or purchaser. The estoppel certificate may be conclusively relied upon by Lessor and by any prospective lienholder or purchaser of the Leased Premises. If Lessee fails to comply with the foregoing by the end of such seven (7) day period, it shall be conclusively presumed that (1) this Lease is in full force and effect without any subleases or assignments and is unamended or modified except for amendments verified by affidavit of Lessor to the prospective lienholder or purchaser, (2) no Rents, Security Deposits, or other charges have been prepaid, (3) the statements contained in the estoppel certificate form (Exhibit G) are correct, (4) there are no uncured defaults by Lessor, (5) Lessee has no right of offset or rescission, and (6) any prospective purchaser or lienholder may conclusively rely on such silence or noncompliance by Lessee and may conclusively assume no Lessor defaults within the four (4) months following Lessee's receipt of Lessor's request for an estoppel certificate.

31.1 Successors.

This Lease shall bind and inure to the benefit of the parties, any guarantors of this Lease, and their respective successors and assigns.

31.2 Leasing Agent Commissions.

No leasing commission shall be due by Lessor to any leasing agent unless in writing in a separate agreement. Commission agreements executed by Lessor shall be binding on subsequent Building owners if the tenant of the Lease in question is in possession at the time of transfer of Building ownership.

32.1 Building Operating Expenses.

In addition to the monthly Base Rent in Basic Lease Summary #7, Lessee shall pay Pass-Thru Rent on a monthly basis, equivalent to Lessee's Pro Rata Share of actual Building Operating Expenses as per Exhibit C. Lessee's responsibility for payment of Building Operating Expenses shall be subject to the Expense Stop referred to in Basic Lease Summary #8

33.1 Representations and Warranties by Lessor.

Lessor warrants that Lessor is the sole owner of the land and improvements comprising the Building and that Lessor has full right to enter into this Lease. Lessor's duties and warranties are limited to those expressly stated in this Lease and shall not include any implied duties or implied warranties, now or in the future. No representations or warranties have been made by Lessor other than those expressly contained in this Lease.

34.1 Representations and Warranties by Lessee.

Lessee warrants to Lessor that (1) the financial statements of Lessee heretofore furnished to Lessor are true and correct to the best of Lessee's knowledge, (2) there has been no significant adverse change in Lessee's financial condition since the date of the financial statements, (3) the financial statements fairly represent the financial condition of Lessee upon those dates and at the time of execution hereof, (4) there are no delinquent taxes due and unpaid by Lessee, and (5) Lessee and none of the general partners of Lessee (if Lessee is a corporation or partnership) have ever declared bankruptcy. Lessee warrants that Lessee has disclosed in writing to Lessor all lawsuits pending or threatened against Lessee, and Lessee has made no material misrepresentation or material omission of facts regarding Lessee's financial condition or business operations. All financial statements must be dated and signed by Lessee. Lessee acknowledges that Lessor has relied on the above information furnished by Lessee to Lessor and that Lessor would not have entered into this Lease otherwise.

35.1 Place of Performance.

Unless otherwise expressly stated in this Lease, all obligations under this Lease, including payment of Rent and other sums due, shall be performed in the county where the Building is located, at the address designated from time to time by Lessor.

36.1 Miscellaneous.

This Lease contains the entire agreement of the parties. No other written or oral promises or representations have been made, and none shall be binding. This Lease supersedes and replaces any previous Lease between the Lessee and Lessor on the Leased Premises, including any renewals or extensions thereunder. Except for reasonable changes in written rules, this Lease shall not be amended or changed except by written instrument, signed by both Lessor and Lessee. Lessor's agents do not and will not have authority to (1) make exceptions, changes or amendments to this Lease, or factual representations not expressly contained in this Lease, (2) waive any right, requirement, or provision of this Lease, or (3) release Lessee from all or part of this Lease, unless such action is in writing and signed by both parties to this Lease. Multiple Lessees (as identified in Basic Lease Summary #5) shall be jointly and severally liable under this Lease. Notices, requests, or agreements to, from, or with one of multiple Lessees shall be deemed to be to, from, or with all such Lessees. Under no circumstances shall Lessor or Lessee be considered an agent of the other. The Lease shall not be construed against either party more or less favorably by reason of who drafted the Lease or changes in the Lease. Texas law applies. If any date of performance or exercise of a right ends on a Saturday, Sunday, or state holiday, such date shall be automatically extended through the next business day. Time is of the essence; and all performance dates, time schedules, and conditions precedent to exercising a right shall be strictly adhered to without delay except where otherwise expressly provided. Time for performance of non-monetary obligations of either party shall be reasonably extended to the extent delay is caused by force majeure, i.e., a cause such as riot, strikes, etc., beyond the control of the party obligated to perform. If any provision of this Lease is invalid under present or future laws, the remainder of this Lease shall not be affected.

37.1 Hazardous Materials.

Various materials utilized in the construction of any improvements to the Building or in the use thereof, past or present, may contain materials that have been or may in the future be determined to be hazardous. For example, some electrical transformers and other electrical components can contain PCBs, and asbestos may have been used in a wide variety of Building components such as fire-proofing, air duct insulation, acoustical tiles, spray-on acoustical

materials, linoleum, floor tiles and plaster. Such substances may be present on or in soils, underground water, Building components or other portions of the Leased Premises in areas that may or may not be accessible or noticeable. Current federal, state and local laws and regulations may require the clean-up of such hazardous or undesirable materials. Lessor, real estate brokers, and leasing agents in this transaction have no expertise with respect to hazardous materials and have not made, nor will any of their statements constitute representations, either express or implied, regarding the existence or nonexistence of hazardous materials in or on the Leased Premises.

38.1 Confidentiality.

Lessee acknowledges that the terms and provisions of this Lease, if disclosed to third parties, could interfere with and injure Lessor's business relationship with or ability to lease to other existing or prospective tenants. Therefore, except as otherwise provided herein, Lessee agrees to keep confidential any and all terms and provisions of this Lease, including but not limited to Rent amounts, tenant improvements, Pass-Thru Rent terms and calculations, etc. unless, however, the Lessee is required by legal process to disclose certain material facts of this Lease, which facts may be disclosed without Lessor's prior consent. Signature of person signing as same may be subsequently amended or modified together with all information, business terms, agreements, and other matters discussed during the lease negotiations or to be subsequently discussed between Lessee, Lessor, their leasing agents, or their respective representatives and to not disclose same in any way to any persons or entities without Lessor's written consent which Lessor shall have no obligation to give. Provided, however, Lessee may reveal such (if applicable) information to those agents and employees of Lessee made aware of such information shall be informed by Lessee of this Confidentiality Agreement, and Lessee shall be responsible for their compliance with same. In this Confidentiality Agreement, the term "Lessee" shall include Lessee, and any agent, owner, employee, officer, director or affiliate of Lessee.

Notwithstanding the above, Lessee may disclose to any entity from which Lessee is attempting to secure financing those terms of the Lease and the financing. Lessee shall, however, inform the lender of the Confidentiality Agreement and Lessee shall require the lender to comply with the terms hereof. Also, Lessee may disclose the terms of this Lease if required to do so by court order.

If any terms of this Lease are disclosed by Lessee to any third party other than as expressly allowed, or if any third party becomes aware of said information due to a previous disclosure of same by Lessee, Lessor shall, in addition to any other remedies Lessor may have against Lessee at law, in equity, or pursuant to the terms of this Lease, have available to it the following remedy:

(a) Lessor may secure injunction or other equitable relief in any court of competent jurisdiction to prevent or otherwise restrain a breach of this provision; and

39.1 Special Conditions.

Additional provisions of this Lease are set forth in Exhibit J.

40.1 Exhibit List.

The exhibits attached to this Lease are listed below. All exhibits are a part of this Lease except for those which have been lined out or which have been shown below as omitted.

Exhibit A	Floor Plan of the Leased Premises (paragraph 1.1)
Exhibit B	Legal Description of Office Building (paragraph 1.1)
Exhibit C	Building Operating Expense Pass-Thru Calculations (paragraphs 2.1 and 32.1)
Exhibit D	Commencement Agreement
Exhibit E	Construction by Lessor or Lessee (Paragraph 5.1)
Exhibit F-1	Parking Rules (paragraphs 9.2 and 23.1)
Exhibit F-2	Building Rules (paragraph 23.1)
Exhibit G	Estoppel Certificate (paragraph 30.1)
Exhibit H	Intentionally Deleted
Exhibit I	Corporate Resolution Authorizing Lease or Guaranty
Exhibit J	Special Conditions (paragraph 39.1)
Exhibit K	Acknowledgement of Receipt of Agency Disclosure

41.1 Lease Dates and Authority to Sign.

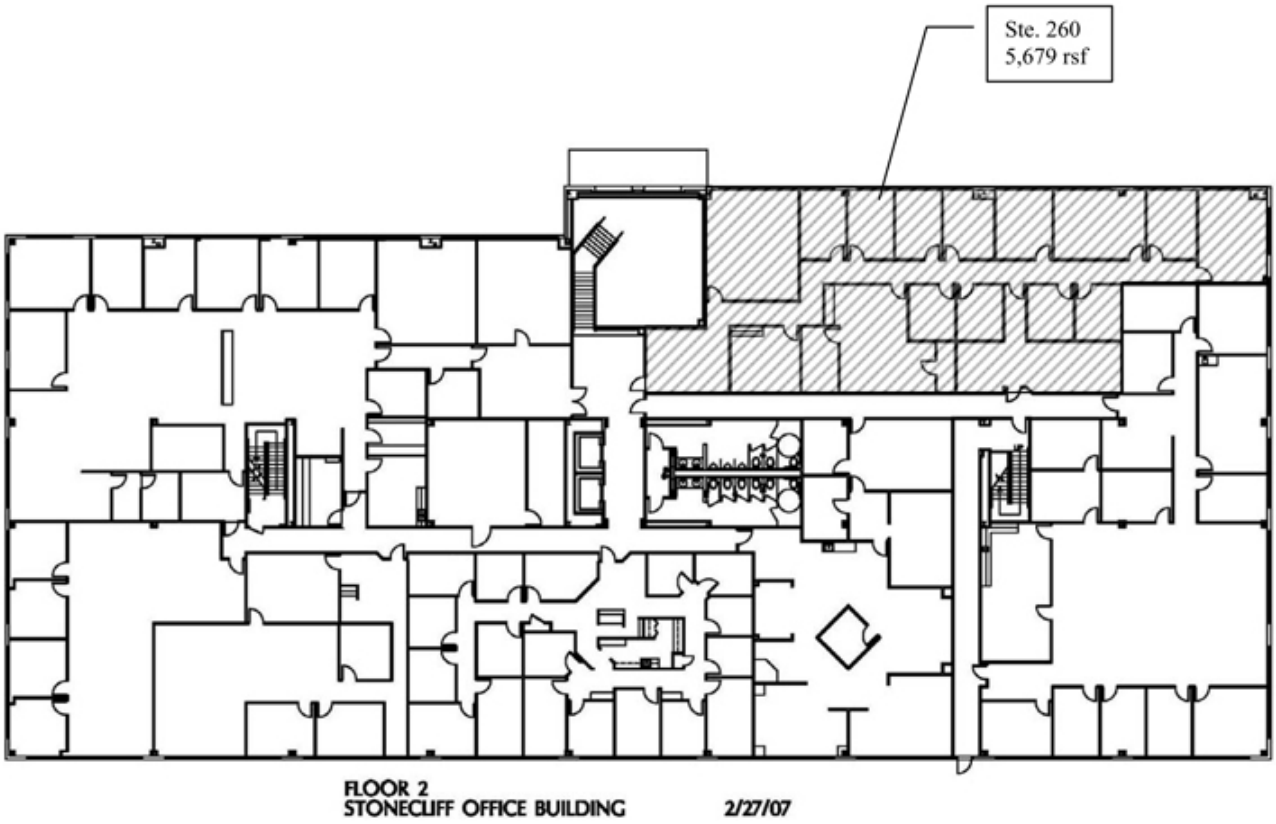
The "Identification" date of this Lease is the date specified in the Basic Lease Summary. The "Effective Date" on which this Lease becomes binding is the date on which the Lease has been signed by Lessor, Lessee, and any guarantors (if applicable). The names and signatures of all parties are shown below; and all persons signing have been duly authorized to sign. If Lessee is a corporation, a corporate resolution authorizing Lessee to execute this Lease is attached as Exhibit I. Corporate seals are unnecessary under Texas law.

LESSOR	**LESSEE**
STONECLIFF OFFICE, L.P.	PAIN THERAPEUTICS, INC.
Printed name of company or firm (if applicable)	Printed name of company or firm (if applicable)
Printed name of person signing	Printed name of person signing
Signature	Signature
EXECUTIVE VICE PRESIDENT KUCERA MANAGEMENT, INC., AS AUTHORIZED MANAGING AGENT	CEO AND PRESIDENT
Title of person signing (if applicable)	Title of person signing (if applicable)
Date signed	Date signed

EXHIBIT A

Floor Plan of the Leased Premises
(see paragraph 1.1 of Lease)

Lessor warrants that the Premises, as outlined herein, have been measured in accordance with BOMA standards.



Building Name: StoneCliff
Lessee's Name: Pain Therapeutics, Inc.
Rev: 03/2009

Lessee _____
Lessor _____

EXHIBIT B

Legal Description of Office Building
by lot, block, subdivision, and county or
by metes and bounds description
(see paragraph 1.1 of Lease)

DESCRIPTION OF 12.77 ACRES, MORE OR LESS, OF LAND AREA IN THE JAMES COLEMAN SURVEY NO. 25, IN TRAVIS COUNTY, TEXAS, BEING THAT SAME TRACT OF LAND DESCRIBED IN A DEED DATED JUNE 5, 2000 FROM LAKELINE-V, INC. AND RON REUE TO AUSTIN #3 ASSOCIATES, L.P., A COLORADO LIMITED PARTNERSHIP DOING BUSINESS IN TEXAS AS MGA AUSTIN #3 ASSOCIATES, L.P., AS RECORDED IN DOCUMENT NUMBER 2000087318, OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, AND BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 1/2" iron rod found in the southeast line of Capital of Texas Highway N. also known as Loop 360, for the west corner of the aforereferenced Lakeline-V, Inc. Tract, same being the north corner of Lot 1, Block "A", Continuum Office Park, a subdivision in Travis County, Texas, according to the map or plat thereof recorded in Volume 101, Pages 72-73, Plat Records of Travis County, Texas, and being the west corner of the herein described tract of land;

THENCE leaving the PLACE OF BEGINNING and the aforereferenced Lot 1, with the common line of said Capital of Texas Highway N. and the Lakeline-V, inc. Tract, the following five (5) courses:

1. N 45°55'30"E 199.26 feet to a 1/2" iron rod found in the remains of a concrete highway monument;
2. N 57°12' 15"E 102.09 feet to a concrete highway monument;
3. N 46°05'00"E 354.84 feet to a 1/2" iron rod found in the remains of a concrete highway monument;
4. N 61°24'00"E 150.38 feet to a concrete highway monument found; and
5. N 46°04'15"E 66.83 feet to a 1/2" iron rod found for the north corner of the Lakeline-V, Inc. Tract, same being the west corner of that 043 acre of land described in a deed dated March 7, 1979 from C.B. Carpenter; et al, to the City of Austin, as recorded in Volume 6512, Page 1874, Deed Records of Travis County, Texas; same being the north corner of the herein described tract of land;

THENCE leaving Capital of Texas Highway N., with the common line of the Lakeline-V, Inc. Tract and the aforereferenced 0.63 acre City of Austin Tract, the following two (2) courses:

1. S 61°55'15"E 398.86 feet to a 1/2" iron rod found; and
2. S 73°56'30"E 130.03. feet to a 1/2" iron rod found for the east corner of the Lakeline-V, Inc. Tract, same being the south corner of the 0.63 acre City of Austin, Tract, and being the west corner of that 2.28 acre tract of land described in a deed dated March 29, 1979, from W.H. Bullard, to the City of Austin, as recorded in Volume 6511, Page 1554, Deed Records of Travis County, Texas, also being the north corner of Vista North, Section Two-A, a subdivision in Travis County, Texas, according to the map or plat thereof recorded in Volume 85, Page 98D-99A, Plat Records of Travis County, Texas, and being the east corner of the herein described tract of land;

THENCE leaving the City of Austin Tracts, with the common line of the Lakeline-V, inc. Tract and the aforereferenced Vista North, Section Two-A, S 32°09'00"W 309.04 feet to a 1/2" iron pipe found for the west corner of said Vista North, Section Two-A, same being the north corner of that 19.83 acre tract of land described in a deed dated January 30, 1985 from Milburn Investments, inc., to the City of Austin, as recorded in Volume 9047, Page 207, Deed Records of Travis County, Texas;

THENCE leaving Vista North, Section. Two-A, with the common line of the Lakeline-V, Inc. Tract and the aforereferenced City of Austin. Tract, S 28°47'30"W 546,65 feet to a 1/2" iron pipe found for the south corner of the Lakeline-V, Inc. Tract, same being the east corner of the aforereferenced Lot l and being the south comer. of the herein described tract of land;

THENCE leaving the City of Austin Tract, with the common line of the Lakeline-V, inc. Tract and Lot 1, N 60°22'03"W 821.28 feet to PLACE OF BEGINNING.

Building Operating Expense Pass-Thru Calculations
(see paragraph 2.1 of Lease)

(a) "ESTIMATED" PRO RATA SHARE BUILDING OPERATING EXPENSES. On or before the beginning of each calendar year, Lessor shall calculate the estimated Building Operating Expenses for the upcoming calendar year, according to the criteria in subparagraph (c) below. One-twelfth of Lessee's Pro Rata Share of estimated Building Operating Expenses which are in excess of any Expense Stop shall be due on the first of each month as "Pass-Thru Rent".

(b) YEAR-END ADJUSTMENT FOR OVERPAYMENT OR UNDERPAYMENT BY LESSEE BECAUSE OF DIFFERENCES BETWEEN "ESTIMATED" AND "ACTUAL" BUILDING OPERATING EXPENSES. After each calendar year of the Lease Term and renewal or extension periods, Lessor shall determine the actual Building Operating Expenses for the preceding calendar year. If it is then determined that actual Building Operating Expenses were less than estimated expenses and that Lessee's monthly payments of estimated expenses over Lessee's Expense Stop figure were too much, Lessor shall promptly credit to Lessee the excess amount paid by Lessee in the form of Rent credit or refund the amount if the Lease has expired and Lessee has vacated the Leased Premises and provided a forwarding address to Lessor. If it is determined that actual Building Operating Expenses were more than estimated expenses and that Lessee's monthly payments of estimated expenses over Lessee's Expense Stop figure were insufficient, Lessor shall invoice Lessee for the amount of Lessee's underpayment. Payment thereof shall be due upon delivery of invoice to Lessee. Payment may be made prior to or with the next scheduled Rent payment occurring at least ten (10) days after the invoice date, but not later. The foregoing calculations and adjustments may also be made one or more times during the calendar year, at Lessor's option.

(c) DEFINITION OF BUILDING OPERATING EXPENSES. Building Operating Expenses for each calendar year shall include: all ad valorem taxes, assessments and related government charges becoming due on the Building and personal property used in operation of the Building in such period; utilities; insurance premiums for fire, extended coverage, vandalism, and liability on the Building and personal property used in Building management; interior and exterior landscape expenses; janitorial expenses; window cleaning; supplies; painting, roof repairs, window replacement, and other maintenance expenses; licenses; permits; advertising; management and maintenance salaries and bonuses; payroll taxes; management office overhead and management fees; and all other managerial, administrative and operating expenses which are reasonably related to the operation of the Building and utilities serving same. No such category shall include more than 12 months' worth of expenses. Building Operating Expenses shall also include the following improvements if amortized over the useful life of such improvements together with interest at 8% per annum on the unamortized cost: (i) improvements which or are designed to reduce Building Operating Expenses, (ii) improvements or modifications required by governmental agencies following completion of the Building, and (iii) improvements to the Common Areas of the Building, including but not limited to carpeting, floor covering, draperies and wall coverings. Building Operating Expenses shall be calculated on an accrual basis in accordance with generally accepted accounting principles, consistently applied. The word "Building" as referred to above shall include the Building, parking areas, parking garage (if any), and Common Areas.

Building Operating Expenses shall **not** include: principal and interest payments on mortgages; depreciation or improvements which IRS requires to be depreciated (except as provided above); expenses of repairing damage of the type normally covered by fire, vandalism, flood, and EC insurance; any expense paid or reimbursed from insurance proceeds; costs of repairing damage for which Lessor is entitled to reimbursement from others; remodeling costs for new or existing tenants; Common Area improvements or personal property required by other tenants to be made, purchased, or furnished to such tenants; utility and air conditioning or heating costs or other expenses which are separately billed to specific tenants; leasing commissions; expenses of marketing vacant space in the Building; legal fees; structural repairs to roof, foundation, and walls; asbestos removal; and installation of new sprinklers, fire alarms, and smoke detector systems.

If utilities and taxes included in “Building Operating Expenses” are not payable, billed or otherwise due so as to allow an accurate calculation of said factors annually, then Lessor, in its reasonable discretion, may estimate and prorate said expenses on an annual basis, and said factors shall be properly adjusted by Lessor when they actually become due and payable. Otherwise, expenses must be supported by invoices and actually paid. Notwithstanding anything is this subsection (c) of this Exhibit, if the present method of taxation changes so that in lieu of the whole or any part of any Taxes levied on the Building, there is levied on Lessor a capital tax directly on the Rents received

therefrom or a franchise tax, assessment, or a charge based, in whole or in part, upon such Rents (including but not limited to the tax imposed pursuant to the 2006 amendments to the Texas Tax Code, Chapter 171, and all subsequent legislation altering, or modifying such amendments, pertaining to certain franchise, margin, revenue, or income taxes, imposed on any entity pursuant to such legislation), then all such taxes, assessments, or charges, or the part thereof so based, shall be deemed to be included within the term “Taxes” hereof.

(d) DEFINITION OF PRO RATA SHARE. Lessee’s Pro Rata Share of estimated and actual Building Operating Expenses is specified in Basic Lease Summary #4.

(e) PERCENTAGE OF BUILDING OCCUPIED. With respect to any calendar year or partial calendar year in which the Building is not occupied to the extent of 95% of the Rentable Area thereof, the Operating Costs for such period shall, for the purposes of calculating Building Operating Expenses, be increased to the amount which would have been incurred if the Rentable Area of the Building had been 95% occupied for the entire year.

(f) DELAY IN IMPLEMENTATION. At Lessor’s option, adjustments may be delayed. Lessor’s delay in implementing such adjustments shall not waive Lessor’s right thereto, and the most recent monthly rental figures shall continue to be paid during such delay. If Lessor delays in timely calculating adjustments, such adjustments shall be retroactive to the respective date on which Lessor had a right to make such adjustment; and such delayed Rent adjustments shall become due upon written notice to Lessee.

(g) EXAMINATION OF RECORDS. Provided Lessee has paid all Rent, Pass Thru Rent and other amounts of every kind due and unpaid under this Lease, upon reasonable notice to Lessor in writing, Lessee may, at Lessee’s sole expense, examine or audit Lessor’s invoices and statements related to Building Operating Expenses for the year immediately preceding, such review to be conducted at the place where such invoices and statements are customarily maintained by Lessor. Examination or audit of Building Operating Expenses for a particular year must be completed no later than four (4) months after Lessee’s receipt of a reconciliation notice or statement of Building Operating Expenses for that year. If not examined or audited within the four (4) month period, such reconciliation shall be deemed as accepted and agreed to by all parties. Lessee and Lessee’s agents and employees shall keep confidential all results of the audit. If Lessee objects to Lessor’s accounting of any Building Operating Expenses, Lessee shall, within 30 days after the completion of Lessee’s audit, notify Lessor that Lessee disputes the correctness of such accounting, specifying the particular line items which Lessee claims are incorrect. If such dispute has not been settled by agreement within 30 days thereafter, either party may submit the dispute to arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. The decision of the arbitrators shall be final and binding on Lessor and Lessee and judgment thereon may be entered in any court of competent jurisdiction.

EXHIBIT D

COMMENCEMENT AGREEMENT

(To be signed at move-in)

The undersigned parties acknowledge that the Lease described below is in full force and effect and that Lessee has taken possession of the space.

Date of Lease: _____
Lessor: _____
Lessee: _____
First Guarantor, if any (not Lessee's name): _____
Second Guarantor, if any (not Lessee's name): _____
Building name: _____
Suite Number(s): _____
Building address: _____

The lease term, commencement dates, lease anniversary date, and ending date of the initial Lease as defined in Items **#6 and #7 of the Basic Lease Summary** in the above Lease are as follows:

Lease Term: _____full calendar months

Lease Commencement Date: _____ Base Rent Commencement Date:
Lease Anniversary Date: _____ Pass-Thru Rent Commencement Date:
Lease Expiration Date: _____

Base Rent:	**Term**	**Monthly Rent**	**Term Rent**	**Annual Rent psf**

Except as provided to the contrary herein, all the remaining terms, covenants, and provisions of the Lease Agreement shall remain in full force and effect and unmodified hereby.

LESSOR
(To be signed at move-in)

Printed name of company or firm (if applicable)

Printed name of person signing

Signature

EXECUTIVE VICE PRESIDENT,

KUCERA MANAGEMENT, INC.
AS AUTHORIZED MANAGING AGENT

Title of person signing (if applicable)

Date signed

LESSEE
(To be signed at move-in)

Printed name of company or firm (if applicable)

Printed name of person signing

Signature

Title of person signing (if applicable)

Date signed

E X H I B I T E

Tenant Finish Out

Lessee accepts the Leased Premises in “As-Is” condition.

E X H I B I T F-1

Parking Rules

(see paragraph 9.2 of Lease)

It is the desire of Lessor to maintain and operate the parking areas (and parking garage, if applicable) in an orderly manner. The following rules and regulations apply to all Lessees in the Building and their agents, employees, family, licensees, invitees, visitors, and contractors unless otherwise stated. Lessor reserves the right to rescind these rules, make reasonable changes, or make other reasonable rules and regulations for the safety, care, and cleanliness of the parking garage, if applicable, and parking areas and for the preservation of good order.

1. TRAFFIC SIGNS. All persons parking in the parking areas and parking garage shall observe posted signs and markings regarding speed, stop signs, traffic lanes, reserved parking, no parking, parking stripes, etc.

2. LESSEE EMPLOYEE AND CUSTOMER PARKING. Lessees and their employees and customers [X]may OR [ ]may not park without charge. Lessor reserves the right to utilize any reasonable system by which Building tenants may pay for parking of their guests or customers.

3. TRASH. All persons parking in the parking garage or parking areas shall refrain from throwing trash, ashtray contents, or other debris on the garage floor or parking areas.

4. FLAT TIRES. All vehicle owners and all persons parking in the parking garage or parking areas shall be responsible for promptly repairing flat tires or other conditions of the vehicle which cause unsightliness in the reasonable judgment of Lessor.

5. REMOVAL OF UNAUTHORIZED VEHICLES. If vehicles are blocking driveways or passageways or parked in violation of these rules and regulations or state statutes, Lessor may exercise vehicle removal remedies under Texas Transportation Code, Chapter 684 upon compliance with statutory notice.

6. SECURITY. Lessor shall use reasonable diligence in the maintenance of existing lighting in the parking garage or parking areas. Lessor shall have no duty for additional lighting or any security measures in the parking areas, including the parking garage.

7. PARKING OF EMPLOYEE VEHICLES. Lessor may from time to time designate specific areas in which vehicles owned by Lessee and Lessee’s employees, sublessees, assignees, licensees, and concessionaires shall be parked. Lessee shall use best efforts to see that such vehicles are parked in such areas. Upon request by Lessor, Lessee shall furnish Lessor a complete list of license numbers of all vehicles operated by Lessee and the above listed persons. Lessor may charge reasonable parking fees for such vehicles not parked in the designated areas.

8. PARKING OF TRUCKS AND DELIVERY VEHICLES. Without Lessor’s prior written approval, no trailers or large trucks may be parked in the parking areas except for temporary loading or unloading. Service and delivery vehicles may be parked in loading zones only when necessary.

9. TIMELY PAYMENT OF PARKING RENT. If applicable, Lessee shall be entitled to monthly parking rights in the parking garage only upon timely payment of the then current monthly parking rent, in advance. Lessee may rent less than the allowed number of spaces. Lessee may rent more than the allowed number of spaces if available in the reasonable judgment of Lessor.

10. CONTROL DEVICES. Lessor reserves the right to install or utilize any reasonable system of entry and exit control devices in marked loading areas.

11. ILLEGALLY PARKED VEHICLES. Lessor has no duty to patrol for illegally parked vehicles or to have them removed. Parking is for daily employee parking only and vehicles may not be left for periods longer than one week. Employees may not use more than one parking space at a time.

Building Rules

(see paragraph 23.1 of Lease)

LESSEE AGREES TO PROVIDE A COPY OF THESE RULES TO EVERY EMPLOYEE

It is the desire of Lessor to maintain in the Building the highest standard of dignity and good taste consistent with comfort and convenience for all tenants. Any action or condition not meeting this high standard should be reported directly to the Lessor. Cooperation by all Lessees will be sincerely appreciated. The following rules and regulations apply to all Lessees in the Building and their agents, employees, family, licensees, invitees, visitors, and contractors unless otherwise stated. Pursuant to paragraph 23.1 of the Lease, Lessor reserves the right to rescind these rules, make reasonable modification thereto, and make other reasonable rules and regulations for the safety, care, and cleanliness of the Building and for the preservation of good order.

1. DELIVERIES AND MOVEMENT OF FURNITURE. Movement into or out of the Building of furniture and equipment shall be restricted to hours, stairways, and elevators designated by Lessor. Unless Lessor notifies Lessee otherwise, only the freight elevator (if applicable) may be used for such purposes, and such elevator may be used only after regular business hours without prior approval of Lessor. All such movement and delivery shall be under the supervision of the Lessor and carried out in a manner agreed between Lessee and the Lessor, by prearrangement. Prearrangement shall include time, method, routing, and any limitations imposed for reasons of safety or non-disturbance of others. The hold harmless and indemnification provisions of paragraph 12.3 shall apply to the foregoing. Lessor requires that movement of furniture or equipment which interferes with normal Building traffic shall be made at hours other than normal business hours.

2. OBSTRUCTION OF PASSAGEWAYS. None of the passageways, outside entries, exterior doors, elevators, hallways, or stairways shall be locked or obstructed. No rubbish, trash, litter, or materials of any nature may be emptied or thrown into these areas. These areas may be used only for ingress and egress.

3. DOORS AND DOORLOCKS. When Lessee’s corridor doors are not in use, Lessee shall use its best efforts to keep them closed on all floors where Lessee is a partial tenant on the floor. No additional locks shall be placed on any doors in the Leased Premises without written consent of Lessor. Lessee shall not change, alter, or replace locks provided by Lessor on doors in the Building, except with written permission of the Lessor. All necessary keys shall be furnished by Lessor, and Lessor shall be entitled to have a key for every door in the Leased Premises. Lessee shall surrender all keys upon termination of Lessee’s right of occupancy; and at such time, Lessee shall give Lessor the combination to all vaults or combination locks remaining in the Leased Premises after surrender by Lessee.

4. SAFES. Safes and other heavy articles shall be carried onto the Leased Premises only at such times and in such manner as prescribed by Lessor. Lessor shall have the right to specify weight limitations and positioning of safes or other heavy articles. Any damage done to the Building by installation, presence, or removal of a safe or other article owned or controlled by Lessee on the Leased Premises, shall be paid for by Lessee.

5. REMOVAL OF FURNITURE. Removal of furniture or equipment from the Leased Premises shall require presentation of written authorization by an authorized representative of Lessor. Security guards, watchmen, janitors, and other Building employees will have the right to challenge all persons leaving the Building with such items.

6. INSTALLATION AND REPAIR WORK. Lessee shall refer all contractors, contractors’ representatives, and installation technicians who render any service on or to the Leased Premises, to the Lessor for approval and supervision before performance of any service. This provision shall apply to all work performed in the Building, including installation of telephones, electrical lines, and other electrical devices where such installation affects the floors, walls, woodwork, trim, windows, ceilings, mechanical equipment, or any other part of the Building. If Lessee desires telephone or other electronic connections, Lessee shall notify Lessor; and Lessor shall then direct installation servicemen as to where and how wires may be introduced. Without such directions, no such installations shall be permitted.

7. HAZARDOUS MATERIALS. Lessee shall not place or install, on the Leased Premises or any part of the Building, any explosive, gasoline, kerosene, oil, acids, caustics, or any other inflammable, explosive, or hazardous materials without written consent of the Lessor. **Lessee shall not operate electric space heaters, stoves, engines, or other equipment not typical of an office building without written consent of the Lessor**. Space heaters pose a serious safety risk and will be removed and disposed of by Lessor from any Lease Premises without any notice.

8. ENTRY BY LESSOR. Lessor shall have the right to enter the Leased Premises for the purposes set forth in paragraph 9.1 of the Lease at all times.

9. PLUMBING. Plumbing fixtures and appliances shall be used only for the purposes for which they were constructed. No sweeping, rubbish, rags, or other unsuitable materials may be thrown or placed in plumbing fixtures or appliances. The cost of any stoppage or damage resulting from negligence or improper use of these fixtures and appliances by Lessee or Lessee's agents, employees, family, invitees, licensees, or visitors shall be paid for by the Lessee.

10. WINDOWS. Lessee shall not allow windows within the Leased Premises to be opened at any time, except in emergencies. Nothing shall be thrown out of the windows of the Building or down the stairwells or other passages. Lessor reserves the right to cause any or all windows of the Building to be locked, sealed, closed, or otherwise made inoperable, or to install permanent or temporary screens thereon, and to include the cost thereof with the Building Operating Expenses.

11. THEFT AND DAMAGES. Lessor shall not be responsible for lost or stolen personal property, equipment, money, or jewelry from the Leased Premises or from the public areas of the Building, regardless of whether such loss occurs when the area is locked against entry. Lessor will not be liable to Lessee, or Lessee's employees, customers, or invitees for any damages or losses to persons or property caused by other lessees in the Building or for damages or losses caused by theft, burglary, assault, vandalism, or other crimes. Lessor shall not be liable for personal injury or loss of Lessee's property from fire, flood, water leaks, rain, hail, ice, snow, smoke, lightning, wind, explosions, or interruption of utilities unless such injury or damage is caused by negligence of Lessor. If this does indeed require same, Lessor strongly recommends that Lessee secure Lessee's own insurance to protect against the above occurrences.

12. ANIMALS. No birds, fowl, or animals (except guide dogs for handicapped persons) shall be brought into or kept in or about the Building or Common Areas.

13. BICYCLES AND OTHER VEHICLES. No bicycles, motorcycles, or similar vehicles shall be allowed in the Building. No trailers or large trucks may be parked in the parking areas except for temporary loading or unloading.

14. RESIDENTIAL USE. No sleeping, cooking, clothes cleaning, or laundering is permitted on the Leased Premises without written consent of Lessor.

15. INTOXICATION. Lessor reserves the right to exclude or expel from the Building any person who in the reasonable judgment of Lessor, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any rules of the Building.

16. DISTURBANCES. Lessee shall not obstruct, disturb, or interfere with the rights of other Lessees or occupants or in any way injure or annoy them. Lessee shall not make any noises or odors by any means which, in the reasonable judgment of Lessor, are likely to disturb other lessees or occupants of the Building.

17. COMPLIANCE WITH SAFETY AND SANITATION LAWS. Lessee shall comply with all laws relating to fire, safety, and sanitation, and shall comply with any requirements of Lessor's insurance company with respect to fire prevention, safety standards, and sanitation.

18. CLEANING. Lessee shall not employ any person or persons without written consent of Lessor, for the purpose of cleaning or maintaining of the Leased Premises. Lessee shall cooperate with Lessor's employees, agents, and cleaning personnel in keeping Lessee's Leased Premises neat and clean. Any special cleaning requested by Lessee and performed by Lessor or Lessor's employees, agents, or contractors shall be paid for by Lessee.

19. SOLICITING. Canvassing, soliciting, or peddling in the Building is prohibited without written permission of Lessor, and Lessee shall cooperate to prevent same.

20. SIGNS. No signs, fixtures, or notices of any kind may be displayed except by written consent of Lessor, except that Lessee may display company signage inside the Leased Premise All signs shall conform to the requirements of paragraph 28.1 of the Lease.

21. NOTICE OF PERSONAL INJURIES OR UTILITY OR MECHANICAL PROBLEMS. Lessee shall give prompt notice to the Lessor, to the best of Lessee's knowledge, of any significant accidents involving injury to persons or property, including plumbing, electrical, heating, air conditioning, stairwell, corridor, and elevator problems and/or personal injury and property damage caused thereby.

22. REQUESTS BY LESSEE. Except in emergencies, requests by Lessee shall be attended to only after written request by Lessee to the Lessor. Lessor's agents are not allowed to perform or do anything outside their regular duties unless pursuant to special orders from Lessor. Lessee may not contract with Lessor's agents for the performance of paid or free services to Lessee. If, at the request of Lessee, Lessor or Lessor's agents furnish services, goods, labor, or material to Lessee which are not required to be furnished by Lessor under this Lease, Lessee shall pay for same upon delivery of a written statement therefore to Lessee.

23. BUILDING ACCESS. Lessor shall not be liable for damages for any good faith error with regard to admission or exclusion from the Building of any person. In case of fire, destruction, invasion, mob, riot, or other commotion, Lessor reserves the right to prevent access to the Building by closing the doors or otherwise.

24. REQUEST FOR EXTRA AIR CONDITIONING. Requests for heating or air conditioning before or after the hours of operation stated in paragraph 7.1 of the Lease must be received by Lessor at least 24 hours in advance.

25. LEASE PROVISIONS REGARDING LESSEE'S CONDUCT. Lessee shall comply with all the provisions of paragraph 9.2 regarding parking and paragraph 10.1 regarding occupancy, nuisance, and hazards.

26. ELEVATORS. Lessor shall not be liable for damages from stoppage of elevators for repair, service, or improvements, nor shall Lessor be liable for delays of any duration in connection with elevator repair, service, or improvements.

27. SMOKING. This is a non-smoking Building; smoking is not permitted anywhere inside the Building or within 15 feet of any Building entrance.

28. ICE, SLEET, SNOW, OR WATER. Lessor shall have no duty to remove, in whole or in part, ice, sleet, snow, or water from parking lots, walkways, sidewalks, or stairs, regardless whether they are covered, uncovered, inside, or outside of Buildings. At Lessor's option, Lessor may remove such ice, sleet, snow, or water at any time, in whole or in part, with or without notice to anyone.

WATER LEAKS AND INFILTRATION. Lessee shall immediately notify Lessor of any visible water leaks, significant water spills on carpet, or water infiltration into any wall or ceiling in Lessee's space or any mold or mildew in Lessee's space.

30. EXCESS WEIGHT. Lessor reserves the right to prescribe and to approve the weight, size and location of safes, book shelves and other heavy equipment, fixtures and articles in and about the Leased Premises and Building. Lessee shall not overload any floors. Lessee shall be liable for any reinforcement of the floors or professional fees incurred to determine necessary measures. Damage caused to the Building by Lessee for failure to adhere to this rule will be Lessee's sole cost.

This form is not to be filled in or executed at time of lease execution.

Estoppel Certificate
(see paragraph 30.1 of Lease)

The purpose of this certificate is to confirm the current status of matters relating to the Lease described below. It is for the benefit of the owner or prospective purchaser or mortgagee of the Building in which the Leased Premises are located.

1. The undersigned is the Lessee under a Lease between_____, as Lessor, and_____, as Lessee, dated _____ on Leased Premises locally known as the _____ building and located at_____. A copy of the fully executed Lease and any amendments or modifications thereto are attached. There are no other modifications or amendments to the above described Lease. The dates of any amendments or modifications are: (put "none" if inapplicable)_____.

2. There are no unfulfilled written or verbal promises, representations, or warranties by Lessor.

3. There are no subleases of the Leased Premises or any portions thereof.

4. The Lease (together with any amendments or modifications referred to above) is in good standing and in full force and effect. Lessor is not in default. Lessee agrees to give notice of any Lessor default to any purchaser or lender making written requests to Lessee for same.

5. Except for Rents (if any) which may be due under the Lease for the current month, there are no Rents or other charges which have been prepaid by the undersigned Lessee to Lessor under the Lease other than the following:

---

6. The amount of Security Deposit currently posted by Lessee with Lessor is $_____ in the form of ( ) cash or ( ) an irrevocable, unconditional letter of credit issued by Bank Issuing Letter of Credit in favor of Lessor which is still valid.

7. Lessee acknowledges that the space being leased consists of _____ rentable square feet according to the Lease, that the improvements to be constructed by Lessor have been satisfactorily completed, that the Lease space has been accepted by Lessee, that Lessee now occupies the lease space, and that the Commencement Date for the Lease Term was _____.

8. There are no Rentals which are due and unpaid. Rentals are fully paid (if required by the Lease) through the last day of the month in which this estoppel certificate has been executed.

9. There are no known offsets or credits against rentals except as expressly provided by the terms of the Lease. There is no known right of rescission and no known defense to Lessee's future obligations to pay the specified rentals at the times and in accordance with the Lease Terms. Lessee has not received any concession (rental or otherwise) or similar compensation not expressed in the Lease which is presently in effect.

10. Lessee has no options or rights of refusal regarding the Leased Premises or additional rental space other than as set out in the Lease.

11. Lessee has not: (a) made a general assignment for the benefit of creditors; and (b) commenced any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution, or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors; or (c) had any involuntary case, proceeding, or other action commenced against it which seeks to have an order for relief entered against it, as debtor, or seeks reorganization, arrangement, adjustment, liquidation, dissolution, or

composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors; or (d) concealed, removed, or permitted to be concealed or removed, any part of its property, with intent to hinder, delay, or defraud its creditors or any of them, or made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance, or similar law; or made any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or (e) had a trustee, receiver, custodian or other similar official appointed for or take possession of all or any part of its property or had any court take jurisdiction of any other of its property.

12. Lessee agrees to furnish Lessor with estoppel letters on this form within 10 days (stating the then-current facts) after written request by Lessor or subsequent owners of the Building.

13. Lessee acknowledges that, upon 10 days' prior written request of Lessor's mortgagee at any time after foreclosure proceedings or a deed in lieu of foreclosure, Lessee shall attorn to the mortgage or foreclosure purchaser by recognizing such new owner as Lessor under the Lease provided that such purchaser shall recognize the rights of tenant under the Lease as long as tenant is not in default. The agreement of Lessee to attorn shall survive any foreclosure sale or deed in lieu of foreclosure. Lessee shall, upon 10 days' written notice from Lessor's mortgagee anytime before or after foreclosure sale, execute, acknowledge, and deliver to Lessor's mortgagee all instruments and certificates that in the reasonable judgment of Lessor's mortgagee may be necessary or proper to confirm such attornment.

14. Lessee acknowledges that this estoppel certificate and the statements therein may be conclusively relied upon by Lessor and by any prospective purchaser or lien holder of the Leased Premises.

15. The form of this estoppel certificate may vary, depending on lender or purchaser requirements. It is agreed that this certificate may be modified to conform to reasonable requests by lenders or purchasers.

16. This agreement shall be binding upon and shall inure to the benefit of the Lessor, any present or future mortgagee, any prospective buyer or master Lessee of the property, and their successors and assigns.

Dated this __ day of ____, 20__.

LESSEE:
Pain Therapeutics, Inc.

By _____

Printed name of signatory Remi Barbier

Title CEO and President

E X H I B I T H
Intentionally Deleted

E X H I B I T I

Certificate of Corporate Resolution Authorizing Lease or Guaranty
(see paragraphs 39.1 of Lease)

The undersigned, as secretary of the corporation named below, certifies that at a meeting of the board of directors of the corporation, duly called and held on the 17th day of September 2010_____, at which a quorum of the directors were present and acting throughout, corporate resolutions substantially similar to the following were unanimously adopted and are still in force and effect:

RESOLVED that management shall be authorized to execute a lease for office space on behalf of the corporation and/or to guarantee performance of a lease for office space in Austin, Tx. The exact lease is described below:

Date of Lease:	December 28, 2010
Lessor:	StoneCliff Office, L.P.
Lessee:	Pain Therapeutics, Inc.
Building name:	StoneCliff
Suite Number(s):	260
Building address:	7801 Capital of Texas Highway, Austin, TX 78731
First Guarantor (not Lessee's name):	N/A
Second Guarantor (not Lessee's name):	N/A

RESOLVED FURTHER, that management is authorized on behalf of the Corporation to execute and deliver to the Lessor all instruments reasonably necessary for the Lease.

Lessor is entitled to rely upon the above resolutions until the board of directors of the corporation revokes or alters same in written form, certified by the secretary of the corporation, and delivers same, certified mail, return receipt requested, to the Lessor.

The corporation is duly organized and is in good standing under the laws of the State of Delaware and there are no proceedings pending to forfeit the corporation's charter or right to do business in Texas.

WITNESS MY HAND this __ day of ____, 20__

Pain Therapeutics, Inc.
Typed name of corporation

Signature of Chairman of the Board
Remi Barbier
Printed name of Chairman of the Board

E X H I B I T J

Special Conditions
(see special conditions paragraph 39.1 of Lease)

The following special conditions shall apply to this Lease and shall prevail on any other provisions to the contrary.

FINANCIAL STATEMENTS. Prior to execution of this Lease and thereafter from time to time upon 15 days written request from Lessor, Lessee shall, upon written request, furnish to Lessor quarterly or annual financial statements, as available, of Lessee's financial condition audited by an independent certified public accountant (if available) or an internally-prepared statement (if a CPA-prepared statement is unavailable), in the exact form as filed with the U.S. Securities & Exchange Commission on a quarterly or annual basis, certified by an officer of the corporation. . All financial statements shall be current within three months. Lessor will not disclose any aspect of Lessee's financial statements that Lessee designates as confidential, except for (1) disclosing same to Lessor's lenders or prospective lenders, purchasers or prospective purchasers, (2) litigation between Lessor and Lessee, or (3) court order.

CREDIT REPORTS. Lessee gives Lessor express permission to order a consumer report (credit report) from any consumer reporting agency before, during, and after Lessee's tenancy for any legitimate business purpose.

EXPANSION OPPORTUNITY. Should the Lessor require further expansion space during the term of the Lease, Lessor will present all of the expansion possibilities within Stonecliff. If a solution, including all economic terms, is found which is suitable to both parties, Lessor will facilitate the relocation of Lessee to the other suite provided that both parties can reach agreement on terms.

BICYCLES. Lessee may have a bicycle or bicycles on the property, not to exceed four (4) bicycles, to be stored in undercover parking only.

COST OF RESERVED PARKING. If during the Lease Term, Lessee renews Lease for anything longer than a thirty-six (36) month term, Lessor will provide credit for all payment to date of reserved parking, and from that point onwards, two (2) reserved spaces will be available to Lessee free of charge.

EXHIBIT K

Lessee's Acknowledgment of Receipt of Broker's Agency Disclosure
Approved by the Texas Real Estate Commission for Voluntary Use
Texas law requires all real estate licensees to give the following information
about brokerage services to prospective buyers, tenants, sellers and landlords.

Information About Brokerage Services

Before working with a real estate broker, you should know that the duties of a broker depend on whom the broker represents. If you are as prospective seller or landlord (owner) or a prospective buyer or tenant (buyer), you should know that the broker who lists the property for sale or lease is the owner's agent. A broker who acts as a subagent represents the owner in cooperation with the listing broker. A broker who acts as a buyer's agent represents the buyer. A broker may act as an intermediary between the parties if the parties consent in writing. A broker can assist you in locating a property, preparing a contract or lease, or obtaining financing without representing you. A broker is obligated by law to treat you honestly.

IF THE BROKER REPRESENTS THE OWNER:

The broker becomes the owner's agent by entering into an agreement with the owner, usually through a written listing agreement, or by agreeing to act as a subagent by accepting an offer of subagency from the listing broker. A subagent may work in a different real estate office. A listing broker or subagent can assist the buyer but does not represent the buyer and must place the interests of the owner first. The buyer should not tell the owner's agent anything the buyer would not want the owner to know because an owner's agent must disclose to the owner any material information known to the agent.

IF THE BROKER REPRESENTS THE BUYER:

The broker becomes the buyer's agent by entering into an agreement to represent the buyer, usually through a written buyer representation agreement. A buyer's agent can assist the owner but does not represent the owner and must place the interests of the buyer first. The owner should not tell a buyer's agent anything the owner would not want the buyer to know because a buyer's agent must disclose to the buyer any material information known to the agent.

IF THE BROKER ACTS AS AN INTERMEDIARY:

A broker may act as an intermediary between the parties if the broker complies with The Texas Real Estate License Act. The broker must obtain the written consent of each party to the transaction to act as an intermediary. The written consent must state who will pay the broker and, in conspicuous bold or underlined print, set forth the broker's obligations as an intermediary. The broker is required to treat each party honestly and fairly and to comply with The Texas Real Estate License Act. A broker who acts as an intermediary in a transaction:

(1) shall treat all parties honestly;
(2) may not disclose that the owner will accept a price less than the asking price unless authorized in writing to do so by the owner;
(3) may not disclose that the buyer will pay a price greater than the price submitted in a written offer unless authorized in writing to do so by the buyer; and
(4) may not disclose any confidential information or any information that a party specifically instructs the broker in writing not to disclose unless authorized in writing to disclose the information or required to do so by The Texas Real Estate License Act or a court order or if the information materially relates to the condition of the property.

With the parties' consent, a broker acting as an intermediary between the parties may appoint a person who is licensed under The Texas Real Estate License Act and associated with the broker to communicate with and carry out instruction so one party and another person who is licensed under that Act and associated with the broker to communicate with an carry out instruction of the other party.

If you choose to have a broker represent you,
you should enter into a written agreement with the broker that clearly establishes the broker's obligations and your obligations. The agreement should state how and by whom the broker will be paid. You have the right to choose the type of representation, if any, you wish to receive. Your payment of a fee to a broker does not necessarily establish that the broker represents you. If you have any questions regarding the duties and responsibilities of the broker, you should resolve those questions before proceeding.

Real estate licensee asks that you acknowledge receipt of this information about brokerage services for the licensee's records.	
Lessee Signature	Date
Texas Real Estate Brokers and Salesmen are licensed and regulated by the Texas Real Estate Commission (TREC). If you have a question or complaint regarding a real estate licensee, you should contact TREC at P.O. Box 12188, Austin, Texas 78711-2188 or 512-465-3960.	

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Remi Barbier, certify that:

1. I have reviewed this Report on Form 10-Q of Pain Therapeutics, 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 report;
4. The registrant's other certifying officer(s) 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 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; and
5. The registrant's other certifying officer(s) 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.

/s/ REMI BARBIER

Remi Barbier,
Chairman of the Board of Directors,
President and Chief Executive Officer

Date: April 27, 2011

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter S. Roddy, certify that:

1. I have reviewed this Report on Form 10-Q of Pain Therapeutics, 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 report;
4. The registrant's other certifying officer(s) 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 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; and
5. The registrant's other certifying officer(s) 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.

/s/ PETER S. RODDY

Peter S. Roddy,
Vice President and Chief Financial Officer

Date: April 27, 2011

Exhibit 32.1

CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. Section 1350)

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Remi Barbier, Chairman of the Board of Directors, President and Chief Executive Officer and Peter S. Roddy, Vice President and Chief Financial Officer of Pain Therapeutics, Inc. (the "Company"), hereby certify that to the best of our knowledge:

1. The Company's Periodic Report on Form 10-Q for the period ended March 31, 2011, and to which this certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2011

/s/ REMI BARBIER
Remi Barbier,
Chairman of the Board of Directors,
President and Chief Executive Officer

/s/ PETER S. RODDY
Peter S. Roddy,
Vice President and Chief Financial Officer