
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 000-31719

POZEN Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1657552
(I.R.S. Employer
Identification No.)

**1414 Raleigh Road
Suite 400
Chapel Hill, North Carolina 27517**
(Address of principal executive offices, including zip code)

(919) 913-1030
(Registrant's 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 ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):
☐ Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer

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

The number of shares outstanding of the registrant's common stock as of April 30, 2007 was 29,486,316.

POZEN Inc.
(A Development Stage Company)
FORM 10-Q

For the Three Months Ended March 31, 2007

INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Balance Sheets as of March 31, 2007 and December 31, 2006	1
Statements of Operations for the Three Months Ended March 31, 2007 and 2006 and Period From Inception (September 26, 1996) Through March 31, 2007	2
Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006 and Period From Inception (September 26, 1996) Through March 31, 2007	3
Notes to Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 6. Exhibits	36
Signature and Certifications	37
Exhibit Page	38

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

POZEN Inc.
(A Development Stage Company)
BALANCE SHEETS
(Unaudited)

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,233,022	\$ 26,296,884
Short-term investments	26,950,846	36,285,102
Accounts receivable	3,955,004	3,267,153
Prepaid expenses and other current assets	715,652	1,108,506
Total current assets	<u>62,854,524</u>	<u>66,957,645</u>
Property and equipment, net of accumulated depreciation	<u>170,213</u>	<u>183,468</u>
Total assets	<u><u>\$ 63,024,737</u></u>	<u><u>\$ 67,141,113</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,345,426	\$ 965,563
Accrued compensation	523,754	1,434,591
Accrued expenses	2,375,649	1,756,300
Deferred revenue	<u>14,169,200</u>	<u>14,870,200</u>
Total current liabilities	18,414,029	19,026,654
Long-term liabilities:		
Deferred revenue	<u>21,000,000</u>	<u>24,000,000</u>
Total liabilities	39,414,029	43,026,654
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, issuable in series, of which 90,000 shares are designated Series A Junior Participating Preferred Stock, none outstanding	—	—
Common stock, \$0.001 par value, 90,000,000 shares authorized; 29,485,316, and 29,447,913 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	29,485	29,448
Additional paid-in capital	157,503,384	155,920,068
Accumulated other comprehensive loss	(1,556)	(4,092)
Deficit accumulated during the development stage	<u>(133,920,605)</u>	<u>(131,830,965)</u>
Total stockholders' equity	<u>23,610,708</u>	<u>24,114,459</u>
Total liabilities and stockholders' equity	<u><u>\$ 63,024,737</u></u>	<u><u>\$ 67,141,113</u></u>

See accompanying Notes to Financial Statements.

POZEN Inc.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(Unaudited)

	March 31, 2007	March 31, 2006	Period From Inception (September 26, 1996) Through March 31, 2007
Revenue	\$ 7,656,004	\$ 2,237,000	\$ 76,625,058
Operating expenses:			
General and administrative	3,230,539	3,652,470	66,125,540
Research and development	7,304,418	5,488,178	155,672,333
Total operating expenses	10,534,957	9,140,648	221,797,873
Interest and other income	789,313	458,857	12,186,688
Net loss	(2,089,640)	(6,444,791)	(132,986,127)
Non-cash preferred stock charge	—	—	(27,617,105)
Preferred stock dividends	—	—	(934,478)
Net loss attributable to common stockholders	<u>\$ (2,089,640)</u>	<u>\$ (6,444,791)</u>	<u>\$ (161,537,710)</u>
Basic net loss per common share	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>	
Shares used in computing basic net loss per common share	<u>29,469,392</u>	<u>29,114,570</u>	
Diluted net loss per common share	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>	
Shares used in computing diluted net loss per common share	<u>29,469,392</u>	<u>29,114,570</u>	

See accompanying Notes to Financial Statements.

POZEN Inc.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Three Months Ended March 31,</u>		<u>Period from</u>
	<u>2007</u>	<u>2006</u>	<u>September 26, 1996</u>
			<u>(inception) through</u>
			<u>March 31, 2007</u>
Operating activities			
Net loss	\$ (2,089,640)	\$ (6,444,791)	\$ (132,986,127)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	24,745	24,660	962,543
Write-down of impaired assets	—	—	155,576
Bond amortization income	(478,330)	(244,895)	(2,121,559)
Noncash compensation expense	1,458,767	1,920,467	19,196,223
Noncash financing charge	—	—	450,000
Changes in operating assets and liabilities:			
Accounts receivable	(687,851)	—	(3,955,004)
Prepaid expenses and other current assets	392,854	61,759	(715,652)
Accounts payable and accrued expenses	88,375	(405,866)	4,244,829
Deferred revenue	(3,701,000)	(2,237,000)	35,169,200
Net cash used in operating activities	(4,992,080)	(7,325,666)	(79,599,971)
Investment activities			
Purchase of equipment	(11,490)	(12,791)	(1,288,332)
Purchase of investments	(18,193,878)	(13,406,002)	(119,339,844)
Sale of investments	28,009,000	7,600,000	94,509,000
Net cash provided by (used in) investing activities	9,803,632	(5,818,793)	(26,119,176)
Financing activities			
Proceeds from issuance of preferred stock	—	—	48,651,850
Proceeds from issuance of common stock	124,586	838,665	84,458,304
Proceeds from collections of stockholders' receivables	—	—	1,004,310
Proceeds from notes payable	—	—	3,000,000
Payment of dividend	—	—	(162,295)
Net cash provided by financing activities	124,586	838,665	136,952,169
Net increase (decrease) in cash and cash equivalents	4,936,138	(12,305,794)	31,233,022
Cash and cash equivalents at beginning of period	26,296,884	27,467,789	—
Cash and cash equivalents at end of period	<u>\$ 31,233,022</u>	<u>\$ 15,161,995</u>	<u>\$ 31,233,022</u>
Supplemental schedule of cash flow information			
Cash paid for interest	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 191,328</u>
Supplemental schedule of noncash investing and financing activities			
Conversion of notes payable to preferred stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,000,000</u>
Preferred stock dividend	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 772,183</u>
Forfeiture of common stock options and warrants	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 314,179</u>
Conversion of common stock warrants to common stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,080,001</u>

See accompanying Notes to Financial Statements.

POZEN Inc.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. Development Stage Company

POZEN Inc. (“we” or “POZEN” or the “Company”) was incorporated in the State of Delaware on September 25, 1996 and is operating in a single reportable segment. The Company is a pharmaceutical company focused primarily on products for the treatment of acute and chronic pain and other pain-related conditions. The Company’s product development emphasis is on diseases with unmet medical needs where the Company can improve efficacy, safety and/or patient convenience. Since inception, the Company has focused its efforts primarily on the development or regulatory approval of pharmaceutical products for the treatment of migraine. The Company is also exploring the development of product candidates in other pain-related therapeutic areas. The Company intends to enter into collaboration agreements to commercialize its product candidates, and has entered into, and expects to continue to enter into such collaborations. The Company has not obtained regulatory approval to market any of its product candidates in the United States (U.S.). In 2005, the United Kingdom’s (UK) Medicines and Healthcare Products Regulatory Agency (MHRA) issued a marketing authorization for the Company’s product candidate MT 100 for the acute treatment of migraine in the UK.

Statement of Financial Accounting Standards Board (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises,” states that an enterprise shall be considered to be in the development stage if either planned principal operations have not commenced or planned principal operations have commenced, but there has been no significant revenue therefrom. The Company will remain a development stage company until such time as significant revenues have been generated from the marketing and sale of the Company’s product candidates. As of March 31, 2007, the Company had \$31.2 million in cash and cash equivalents and \$27.0 million in short-term investments. Our operating expenses for 2007 and 2008 are expected to increase from the level of our operating expenses in 2006. However, we believe that we will have sufficient cash reserves to maintain that level of business activities through 2008 provided that certain development expenses are paid by AstraZeneca, as outlined in the collaboration and license agreement dated August 1, 2006 between the Company and AstraZeneca AB. The Company’s expenses might increase additionally in 2007 and 2008 if any regulatory agency requires the Company to conduct additional clinical trials, studies or investigations in connection with their consideration, or reconsideration, of the Company’s regulatory filings for any of its product candidates. The Company is not currently obligated to make any milestone payments to third parties and does not currently have any other required material payment obligations during that period. However, regulatory delays, such as the Company is currently experiencing related to the approvable letter the Company received from the U.S. Food and Drug Administration (FDA) in June 2006 related to the Company’s New Drug Application (NDA) for Trexima, or unforeseen situations or unforeseen developments in the progress of the Company’s existing and future product candidates, may increase the Company’s cash requirements beyond its currently assumed needs.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Statements—The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States and applicable Securities and Exchange Commission (“SEC”) regulations for interim financial information. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the balance sheets, statements of operations and statements of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosure for the preceding fiscal year contained in the Company’s Annual Report on Form 10-K, filed on March 8, 2007. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Revenue Recognition— The Company’s licensing agreements have terms that include upfront payments upon contract signing, additional payments if and when certain milestones in the product’s development or commercialization are reached, and royalty payments based on future product sales. These agreements are accounted for in accordance with SEC Staff Accounting Bulletin No. 101, “Revenue Recognition”, as amended by SAB 104, “Revenue Recognition” (“SAB 104”), and Emerging Issues Task Force 00-21 (“EITF 00-21”), “Revenue Arrangements with Multiple Deliverables.” The non-refundable portion of upfront payments received under the Company’s existing agreements is deferred by the Company upon receipt and recognized on a straightline basis over the period ending on the anticipated date of regulatory approvals, as specified in the agreements relating to the product candidates, or the conclusion of any obligation on the part of the Company. For the Company’s current agreements, these periods are estimated to be as follows:

- The September 2006 \$40.0 million licensing fee received from AstraZeneca AB (AstraZeneca) related to the August 2006 Collaboration and License Agreement with AstraZeneca has been deferred and will be amortized over 40 months. The AstraZeneca licensing fee relates to the Company's proprietary fixed dose combinations of the proton pump inhibitor (PPI) esomeprazole magnesium with the non-steroidal anti-inflammatory drug (NSAID) naproxen, in a single tablet. We recognized \$3.0 million of revenue from the amortization of the AstraZeneca licensing fee for the period ended March 31, 2007.
- The June 2003 initial licensing and patent-issuance milestone payments totaling \$25.0 million for MT 400 received from GSK have been deferred and were originally being amortized over 42 months. During the third quarter of 2005 the amortization period was decreased to 39 months based upon the August 2005 submission to the FDA of the Trexima NDA which was earlier than anticipated. Although the amortization rate in the first quarter of 2005 would have resulted in 2005 revenue recognition of \$7.2 million, the third quarter change in the amortization period resulted in a \$0.7 million increase in the full-year amortization and 2005 revenue recognition of \$7.9 million. During the second quarter of 2006 the remaining amortization period of 6 months was increased to 15 months based upon the June 2006 receipt of an approvable letter from the FDA related to the Trexima NDA and an estimated extension of 9 months, which represents what the Company believed to be the conclusion of any obligation on its part under the agreement. During the fourth quarter of 2006 the remaining amortization period of 9 months was increased to 11 months based upon the December 2006 receipt of a notice from the FDA that it had completed its initial review of POZEN's response to the approvable letter related to the Trexima NDA and had requested additional analyses and supporting information relating to submitted data. Although the amortization rate in the first quarter of 2006 would have resulted in 2006 revenue recognition of \$6.4 million, the second and fourth quarter changes in the amortization period resulted in 2006 revenue recognition of \$4.5 million. As a result of the 2006 changes in the estimated amortization period, \$1.9 million of the \$25 million initial licensing and patent-issuance milestone payments has been deferred to 2007. We recognized \$0.7 million of revenue from the amortization of GSK milestone payments for the period ended March 31, 2007.
- The September 2003 \$1.0 million licensing fee for MT 300 (\$2.0 million non-refundable upfront licensing fee net of a potential termination fee of \$1.0 million) received from Valeant Pharmaceuticals North America (Valeant NA), a subsidiary of Valeant Pharmaceuticals International (formerly Xcel Pharmaceuticals Inc.), has been amortized over 32 months. As the result of the receipt in October 2003 of a not-approvable letter from the FDA relating to the NDA for MT 300, after three months of amortization, this estimated deferral period was increased from an original estimate of 20 months to 32 months ending in April 2006.

Milestone payments are recognized as revenue upon the achievement of specified milestones if (i) the milestone is substantive in nature and the achievement of the milestone was not reasonably assured at the inception of the agreement and (ii) the fees are non-refundable. Any milestone payments received prior to satisfying these revenue recognition criteria are recorded as deferred revenue.

Additionally, the Company's licensing agreements may include payment for services provided by the Company on an hourly rate and direct expense basis. The Company records such revenue in accordance with the agreements which would generally be based upon time spent and materials used on the project. In accordance with EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", under the collaboration agreement with AstraZeneca, the Company will recognize as revenue the direct costs and certain personnel-related expenses incurred in performing additional development activities described within the AstraZeneca agreement. We recognized \$3.9 million of revenue for development activities performed pursuant to the AstraZeneca agreement for the period ended March 31, 2007.

Royalty revenue will be recognized if and when earned in future periods with respect to the manufacture, sale or use of the Company's products or technology. For those arrangements where royalties are reasonably estimable, the Company will recognize revenue based on estimates of royalties earned during the applicable period and reflect in future revenue any differences between the estimated and actual royalties.

Investments—Investments consist primarily of United States government and government agency obligations, and corporate fixed income securities. The Company invests in high-credit quality investments in accordance with its investment policy, which minimizes the possibility of loss. Under the Company's investment policy, investments that have a maturity of greater than three months and less than one year are classified as short-term, are considered to be available-for-sale and are carried at fair value with unrealized gains and losses recognized in other comprehensive income (loss). Realized gains and losses are determined using the specific identification method and transactions are recorded on a settlement date basis. Generally, investments with maturities beyond twelve months are classified as long-term. Marketable and non-marketable equity investments are evaluated periodically for impairment. If it is determined that a decline of any investment is other than temporary, the investment would be written down to fair value and the write-down would be permanent. For the three month periods ended March 31, 2007 and March 31, 2006, the Company had \$0.5 million and \$0.2 million, respectively, of bond amortization included in other income for the period.

Accumulated Other Comprehensive Income—The Company follows the provisions of SFAS 130, "Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components for general purpose

financial statements. Accumulated other comprehensive income is comprised of unrealized gains and losses on marketable securities and is disclosed as a component of stockholders' equity. The Company had \$1,556 of unrealized losses on its investments that are classified as accumulated other comprehensive loss at March 31, 2007 and \$20,244 for the same period of 2006.

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
Net loss	\$ (2,089,640)	\$ (6,444,791)
Unrealized loss on marketable securities	(1,556)	(20,244)
Total comprehensive loss	<u>\$ (2,091,196)</u>	<u>\$ (6,465,035)</u>

Stock-based Compensation— On January 1, 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment,” which requires us to account for share-based payment transactions using a fair value-based method and recognize the related expense in our results of operations. Our compensation cost recognized includes compensation costs for all share-based payments granted prior to, but not yet vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Accordingly, we have not restated our financial results for prior periods.

Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The fair value of restricted stock awards is determined by reference to the fair market value of our common stock on the date of grant. Consistent with the valuation method we used for disclosure-only purposes under the provisions of SFAS No. 123, we use the Black-Scholes model to value service condition and performance condition option awards under SFAS No. 123(R). For awards with only service conditions and graded-vesting features, we recognize compensation cost on a straight-line basis over the requisite service period. For awards with performance or market conditions granted subsequent to our adoption of SFAS No. 123(R), we intend to recognize compensation cost over the expected period to achieve the performance or market conditions. Additionally, performance condition accounting is based on a probability assessment of achieving the performance condition.

The adoption of SFAS No. 123(R) had a significant impact on our results of operations. Our consolidated statements of operations for the three months ended March 31, 2007 and March 31, 2006 includes the following stock-based compensation expense:

	<u>Three months ended March 31, 2007</u>	<u>Three months ended March 31, 2006</u>
Research and development	\$ 484,137	\$ 733,000
General and administrative	974,630	1,187,400
Operating expense	(1,458,767)	(1,920,400)
Tax benefit	-	-
Net expense	<u>\$ (1,458,767)</u>	<u>\$ (1,920,400)</u>

Unrecognized stock-based compensation expense, including time-based options, performance-based options and restricted stock awards, expected to be recognized over an estimated weighted-average amortization period of 2.19 years was \$13.9 million at March 31, 2007 and, over an estimated weighted-average amortization period of 2.46 years was \$14.3 million at March 31, 2006. Unrecognized stock-based compensation expense expected to be recognized over the remaining period ending December 31, 2007 was \$4.3 million at March 31, 2007 and was \$5.0 million at March 31, 2006 for the remaining period ending December 31, 2006. The stock-based compensation expense for the three months ended March 31, 2006 included a one-time adjustment of \$308,000 resulting from the performance-based option expensing method conversion to SFAS No. 123(R) for the options granted under the Trexima incentive program.

Stock Plans

On November 20, 1996, the Company established a Stock Option Plan (the “Option Plan”) and authorized the issuance of options for the purchase of up to 1,605,310 shares of common stock to attract and retain quality employees and to allow such employees to participate in the growth of the Company. In May 2000, the Board of Directors adopted, and in June 2000 the stockholders approved, the POZEN Inc. 2000 Equity Compensation Plan (the “Plan”). The Plan became effective upon the completion of the Company’s initial public offering in October 2000, after which time no further grants were made under the Option Plan. At adoption, the Plan authorized up to 3,000,000 shares of common stock for issuance under the terms of the Plan. In 2004, the Board of

Directors adopted and the stockholders approved an amendment to and restatement of the Plan. The amendment to the Plan provided for an increase in the number of shares of common stock authorized for issuance under the Plan, from 3,000,000 to 5,500,000, or an increase of 2,500,000 shares. In April 2007, the Board of Directors approved, subject to stockholder approval at the 2007 annual meeting, a further amendment and restatement of the Plan, including an increase of 1,000,000 in the number of shares of common stock authorized for issuance under the Plan.

In May 2004 and February 2007 awards of 98,135 and 6,200 restricted stock units, respectively, were made to the Company's chief executive officer under the Plan. The May 2004 award of 98,135 restricted stock units were fully vested at March 31, 2007. The February 2007 award of 6,200 restricted stock units vest in four equal amounts on January 1st of the four calendar years subsequent to the respective grant date of the awards. Both the May 2004 and February 2007 awards are payable in shares of common stock upon cessation of employment or the provision of service to the Company or, as provided in and in accordance with the plan, upon a change of control. The vesting of 25% of the 6,200 restricted stock unit awarded in February 2007 is contingent upon the Company's receiving approval of the Trexima NDA from the FDA on or before December 31, 2007.

On January 3, 2005, pursuant to an incentive program (the "Trexima incentive program") approved by the Compensation Committee of the Board of Directors of the Company, stock options were granted to all of the Company's employees, including its executive officers, to purchase an aggregate of 506,772 shares of common stock. As of March 31, 2007, due to forfeitures resulting from employee terminations, options to purchase an aggregate of 375,251 shares of common stock remain outstanding under the Trexima incentive program. Each performance-based option vests in full upon the later to occur of (i) January 3, 2007 or (ii) the receipt by the Company of an action letter from the FDA indicating approval of the NDA for the product candidate Trexima, which is being developed pursuant to the Company's collaboration agreement with GSK; provided, however that 25% of each such option will be forfeited if receipt of the FDA approval letter for the Trexima NDA does not occur prior to June 30, 2007, and 100% of each such option will be forfeited if receipt of the FDA approval letter for the Trexima NDA does not occur on or before December 31, 2007. These performance-based options, which were granted under the Plan, as amended and restated, have a ten-year term and an exercise price of \$7.06, which was equal to the Nasdaq reported market closing price of the common stock on January 3, 2005, the date of grant.

Time-Based Stock Awards

The fair value of each time-based award is estimated on the date of grant using the Black-Scholes option valuation model, which uses the assumptions described below. Our weighted-average assumptions used in the Black-Scholes valuation model for equity awards with time-based vesting provisions granted during the three months ended March 31, 2007 and 2006 are shown in the following tables:

(In thousands)	Three months ended	Three months ended
	March 31, 2007	March 31, 2006
Expected volatility	89.0 – 89.7 %	76.0 – 77.8 %
Expected dividends	0 %	0 %
Expected terms	6.25 Years	6.25 Years
Risk-free interest rate	4.6 - 4.9 %	4.3 - 4.5 %

The expected volatility rates were estimated based on an equal weighting of the historical volatility of POZEN common stock over the preceding six-year period. The expected terms were estimated based on a simplified method, as allowed under SEC Staff Accounting Bulletin No. 107, averaging the vesting term and original contractual term. The risk-free interest rates for periods within the contractual life of the option were based on seven year U.S. Treasury securities. The pre-vesting forfeiture rates used for the three months ended March 31, 2007 and 2006 were based on historical rates. As required under SFAS No. 123(R), we will adjust the estimated forfeiture rate to our actual experience.

A summary of the time-based stock awards as of March 31, 2007, and changes during the three months ended March 31, 2007, is as follows:

	Underlying Shares (000s)	Weighted- Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Stock Awards				
Outstanding at January 1, 2007	3,416	\$ 8.50		
Granted	572	16.86		
Exercised	37	3.33		
Forfeited or expired	-	-		
Outstanding at March 31, 2007	3,951	7.22	7.2	\$ 20,973
Exercisable at March 31, 2007	2,145	\$ 7.91	5.9	\$ 14,696

The vesting of 46,135 time-based stock awards granted in the three months ended March 31, 2007 are contingent upon the Company's receiving approval of the Trexima NDA from the FDA on or before December 31, 2007.

A summary of the time-based stock awards as of March 31, 2006, and changes during the three months ended March 31, 2006, was as follows:

	Underlying Shares (000s)	Weighted- Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Stock Awards				
Outstanding at January 1, 2006	3,317	\$ 7.67		
Granted	826	10.91		
Exercised	157	5.34		
Forfeited or expired	49	9.28		
Outstanding at March 31, 2006	3,937	8.42	7.6	\$ 32,663
Exercisable at March 31, 2006	1,927	\$ 7.38	6.2	\$ 17,968

The aggregate intrinsic value represents the pretax value (the period's closing market price, less the exercise price, times the number of in-the-money options) that would have been received by all option holders had they exercised their options at the end of the period. The exercise price of stock options granted during the three months ended March 31, 2007 and 2006 was equal to the market price of the underlying common stock on the grant date. The total intrinsic value of stock options exercised during the three months ended March 31, 2007 and 2006 was \$0.5 million and \$1.8 million, respectively.

Restricted Stock and Restricted Stock Units

As of March 31, 2007, there was \$0.1 million of unrecognized compensation expense related to unvested restricted stock units under the February 2007 award of 6,200 restricted stock units granted to our chief executive officer described above and no unrecognized compensation expense related to the May 2004 award of 98,135 restricted stock units. The grant-date per-share fair value of the February 2007 and May 2004 restricted stock units were \$16.89 and \$12.24, respectively. There were 6,200 unvested restricted stock units outstanding at March 31, 2007. A total of 6,200 time-based restricted stock units were granted of which 1,550 were contingent upon the Company's receiving FDA approval of the Trexima NDA on or before December 31, 2007. None were forfeited and 32,712 restricted stock units vested during the three months ended March 31, 2007.

Performance-Based Awards

The fair value of each performance-based option granted under the Plan, including those granted under the Trexima incentive program, was estimated as of the grant date using the Black-Scholes option valuation model without consideration of the performance measures. The inputs for expected volatility, expected term, expected dividends, and risk-free interest rate used in estimating fair value

of performance-based awards for the three months ended March 31, 2007, were the same as those noted above under Time-Based Stock Awards.

Determining the appropriate amount to expense based on the achievement of stated goals in a performance-based award requires judgment, including forecasting future performance results. The estimate of expense is revised periodically based on the probability of achieving the required performance targets and adjustments are made as appropriate. The cumulative impact of any revisions is reflected in the period of change. If any applicable financial performance goals are not met, no compensation cost is ultimately recognized and any previously recognized compensation cost is reversed. Under the Trexima incentive program, 25% of each option will be forfeited if receipt of the FDA approval letter for the Trexima NDA does not occur prior to June 30, 2007 (the “25% portion”). Since the Company believes it is unlikely that this performance goal will be met, no compensation cost is being recognized for the 25% portion of the Trexima incentive program and previously recognized compensation cost, related to this portion of the awards, was reversed in the fourth quarter of 2006.

As of March 31, 2007 and 2006, there were \$0.1 million and \$0.7 million, respectively, in unrecognized compensation expense related to performance-based awards granted under the Trexima incentive program. The March 31, 2007 amount is expected to be recognized over the period ending September 30, 2007, while the March 31, 2006 cost was expected to be recognized over the period ending September 30, 2006. The grant-date fair value of these performance-based options was \$3.77 per share. There were 375,251 and 438,135 unvested performance-based options outstanding at March 31, 2007 and 2006, respectively. No performance-based awards were granted nor exercised during the three months ended March 31, 2007 and 2006; no awards were forfeited during the three months ended March 31, 2007 and 68,160 awards were forfeited during the three months ended March 31, 2006. At March 31, 2007 the performance-based options had an intrinsic value of \$2.2 million and a remaining contractual life of 7.8 years, while at March 31, 2006 the performance-based options had an intrinsic value of \$4.2 million and a remaining contractual life of 8.8 years.

Net Loss Per Share—Basic and diluted net loss per common share amounts are presented in conformity with SFAS 128, “Earnings per Share,” for all periods presented. In accordance with SFAS 128, basic and diluted net loss per common share amounts have been computed using the weighted-average number of shares of common stock outstanding for the three months ended March 31, 2005 and 2006. During the three months ended March 31, 2005 and 2006, the Company had potential common stock equivalents related to its outstanding stock options. These potential common stock equivalents were not included in diluted loss per share for these periods because the effect would have been antidilutive. Accordingly, basic and diluted net loss per share is the same for the three months ended March 31, 2005 and 2006. In accordance with SFAS 128, the Company has excluded the impact of any shares which might be issued under the Rights Plan, detailed below, from the EPS calculation because the Rights are not exercisable since the specified contingent future event has not occurred.

Rights Plan/Series A Junior Participating Preferred Stock—In January 2005, the Company approved a stockholder rights plan (the “Rights Plan”), pursuant to which the Company entered into a Rights Agreement dated January 12, 2005 with StockTrans, Inc., as Rights Agent, and the Company declared a dividend of a right to acquire one preferred share purchase right (a “Right”) for each outstanding share of the Company’s Common Stock, \$0.001 par value per share, to stockholders of record at the close of business on January 28, 2005. Generally, the Rights only are triggered and become exercisable if a person or group acquires beneficial ownership of 15 percent or more of the Company’s common stock or announces a tender offer for 15 percent or more of the Company’s common stock. The Rights Plan is similar to plans adopted by many other publicly-traded companies. The effect of the Rights Plan is to discourage any potential acquirer from triggering the Rights without first convincing the Company’s Board of Directors that the proposed acquisition is fair to, and in the best interest of, the shareholders and the Company. The provisions of the Plan will substantially dilute the equity and voting interest of any potential acquirer unless the Board of Directors determines that the proposed acquisition is in the best interest of the shareholders. In connection with the Plan, the Company designated 90,000 shares of its authorized Preferred Stock as Series A Junior Participating Preferred Stock. Each Right, if and when exercisable, will entitle the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, \$0.001 par value per share, at a purchase price of \$80.00, subject to adjustment. Each holder of a Right (except for the Acquiring Person (as defined in the Rights Plan), whose Rights will be null and void upon such event) shall thereafter have the right to receive, upon exercise, that number of shares of Common Stock of the Company (or, in certain circumstances, cash, property or other securities of the Company) which equals the exercise price of the Right divided by 50% of the current market price (as defined in the Rights Agreement) per share of Common Stock at the date of the occurrence of such event. The Rights can be terminated by POZEN’s Board of Directors and are subject to optional redemption by the Company at \$0.001 per Right. The Rights Plan has a 10-year term and contains provisions requiring a periodic review and evaluation by the Board of Directors.

New Accounting Pronouncements—In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 is an interpretation of FASB Statement No. 109, “Accounting for Income Taxes,” and seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48

is effective as of the beginning of the Company's 2007 fiscal year. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The January 1, 2007 adoption of FIN 48 did not have a material effect on the Company's financial statements.

Contingencies— Five purported class action lawsuits were filed during 2004 by holders of the Company's securities against the Company and certain of its current and former officers, in the U.S. District Court for the Middle District of North Carolina, alleging violations of securities laws. These actions were consolidated for pre-trial purposes. Lead plaintiffs have been appointed by the court and a consolidated amended complaint was filed on December 20, 2004. The amended complaint alleges, among other claims, violations of federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 and Section 20(a) of the Exchange Act against the Company and the Company's chairman and chief executive officer, arising out of allegedly false and misleading statements made by the Company concerning its product candidates, MT 100 and MT 300, during the class period. On January 27, 2005, the Company filed a motion to dismiss the amended complaint. The motion to dismiss was denied on August 30, 2005, and the case is now in discovery phase. On March 27, 2006, a motion for class certification was filed. The court granted the motion and certified the case as a class action on February 28, 2007. Pretrial discovery is now underway. The Company believes that the allegations in this action are without merit and intends to continue defending this case vigorously.

While the Company cannot predict the outcome or reasonably estimate the range of potential loss, if any, from this litigation, it is the current judgment of management that it is unlikely that this litigation will have a material adverse effect on the Company's results of operations, financial condition or cash flows.

Under its commercialization collaboration with Valeant NA, related to MT 300, if the Company chooses to withdraw the MT 300 NDA for commercial or financial reasons under the conditions specified in the agreement, it could be required to pay a withdrawal fee of \$1.0 million. As a result of this contingency, \$1.0 million of the \$2.0 million upfront payment received by the Company from Valeant NA pursuant to the agreement has not been recognized as revenue and will not be recognized as revenue until the conditions in the agreement have been satisfied or resolved.

On July 21, 2005, the Company received a letter from Valeant NA seeking payment of the \$1.0 million withdrawal fee. The Company does not believe the withdrawal fee is payable. The agreement requires that unresolved disputes by the parties be referred to the respective chief executive officers for resolution. If still unresolved, the agreement provides for binding arbitration. Valeant NA has indicated its intention to pursue the dispute resolution provisions provided for in the agreement. The Company intends to vigorously defend its position under the agreement. At this time, it is not possible to determine if any withdrawal fee will be required to be paid to Valeant NA when the ultimate resolution of this dispute is reached, however, it is the current judgment of management that no reserve is required.

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

This discussion of our financial condition and the results of operations should be read together with the financial statements, including the notes contained elsewhere in this Form 10-Q, and the financial statements, including the notes thereto, contained in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed on March 8, 2007.

This report includes "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, representations and contentions and are not historical facts and typically are identified by use of terms such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" and similar words, although some forward-looking statements are expressed differently. You should be aware that the forward-looking statements included herein represent management's current judgment and expectations, but our actual results, events and performance could differ materially from those in the forward-looking statements. The forward-looking statements are subject to a number of risks and uncertainties which are discussed in this Quarterly Report on Form 10-Q, Part II, under the heading "Item 1A. Risk Factors" and elsewhere in this report and in other documents filed by us with the Securities and Exchange Commission. We do not intend to update any of these factors or to publicly announce the results of any revisions to these forward-looking statements, other than as is required under the federal securities laws.

Overview

We are a pharmaceutical company focused on developing products which can provide improved efficacy, safety or patient convenience in the treatment of acute and chronic pain and pain related conditions. We operate a business model that focuses on the following:

- obtaining patents for innovative ideas which we believe have value in the marketplace;
- utilizing a small group of talented employees to develop those ideas through proof of concept by working with strategic outsource partners; and
- licensing the resulting product or technology to a strong pharmaceutical partner to commercialize.

We hire experts with strong project management skills in the specific disciplines we believe are important to maintain within our company. We contract with and manage strong outsource partners as we complete the necessary development work, permitting us to avoid incurring the cost of buying or building laboratories, manufacturing facilities or clinical research operation sites. This allows us to control our annual expenses, but to utilize “best in class” resources as required.

After we establish the proof of concept for an innovative idea, we work with the FDA or foreign regulatory agencies to design a clear path forward to the filing of a new drug application (NDA) or its foreign equivalent. We then seek a strong pharmaceutical partner to license the product or technology, to collaborate with us in the remaining development and to commercialize the product or technology after approval. The success of our business is highly dependent on the market place value of our ideas and the related patents we obtain, our ability to obtain from the required regulatory agencies approval to sell the developed products and our ability to find strong commercial partners to successfully commercialize the products.

We are currently developing Trexima[™] in collaboration with GlaxoSmithKline (GSK). Trexima is GSK’s proposed brand name for the combination of sumatriptan succinate, formulated with GSK’s RT Technology[™], and naproxen sodium in a single tablet designed for the acute treatment of migraine. Trexima incorporates our MT 400 technology, which refers to our proprietary combinations of a triptan (5-HT_{1B/1D} agonist) and a non-steroidal anti-inflammatory drug (NSAID). Under our MT 400 technology, we seek to develop product candidates that provide acute migraine therapy by combining the activity of two drugs that act by different mechanisms to reduce the pain and associated symptoms of migraine. We filed a New Drug Application (NDA) for Trexima with the U.S. Food and Drug Administration (FDA) in August 2005 and in June 2006, we received an approvable letter requiring us to provide certain additional safety information relating to Trexima, some of which required new studies. An approvable letter is an official notification from the FDA that contains conditions that must be satisfied prior to obtaining final U.S. marketing approval. We, along with GSK, met with the FDA in July 2006 to discuss the approvable letter and we submitted a response to the FDA’s approvable letter in November 2006. In December 2006, the FDA told us that our response was not a complete submission and requested that we provide additional analyses and supporting information relating to the data we submitted in our November response. The FDA also indicated that it is necessary to provide a complete and accurate presentation of these data, which must sufficiently address their safety concerns, including cardiovascular safety. We worked with GSK to compile and format the additional data requested by the FDA and delivered a revised full response to the FDA in early February 2007. The FDA has notified us that it has accepted the amended response as a Class II review (six months), which could result in a new decision date of August 1, 2007.

We are also developing product candidates that combine a type of acid inhibitor, a proton pump inhibitor (PPI), with an NSAID (our PN program). These product candidates are intended to provide management of pain and inflammation associated with conditions such as osteoarthritis, and are intended to have fewer gastrointestinal complications compared to an NSAID taken alone. In August 2006, we entered into an exclusive global collaboration and license agreement with AstraZeneca AB (AstraZeneca) to co-develop and commercialize proprietary fixed dose combinations of the PPI esomeprazole magnesium with the NSAID naproxen, in a single tablet using our PN formulation technology. Another product candidate program (our PA program), a combination of a PPI and aspirin, is currently in formulation and clinical development testing. Our PA product candidates are not covered under our agreement with AstraZeneca.

In addition, we are exploring the development of product candidates containing lornoxicam, an NSAID that is currently marketed outside the U.S. (including Europe and Japan) to treat pain or other pain-related indications. These product candidates, which are being developed under an exclusive license agreement with Nycomed Danmark ApS (Nycomed), grant us certain rights to develop and commercialize products containing lornoxicam. We have filed Investigational New Drug Applications (INDs) with the FDA for an oral and an injectable lornoxicam formulation.

We are also conducting both formulation development and early stage clinical studies with new product concepts that are currently in the exploratory stage. If warranted, we may file U.S. and international patent applications with claims directed toward these novel combinations and formulations.

We have incurred significant losses since our inception and have not generated any revenue from product sales. As of March 31, 2007, our accumulated deficit was approximately \$133.9 million. Our historical operating losses have resulted principally from our research and development activities, including clinical trial activities for our product candidates and general and administrative expenses. Research and development expenses include salaries and benefits for personnel involved in our research and development activities and direct development costs, which include costs relating to the formulation and manufacturing of our product candidates, costs relating to preclinical studies, including toxicology studies, and clinical trials, and costs relating to compliance with regulatory requirements applicable to the development of our product candidates. Since inception, our research and development expenses have represented 70% of our total operating expenses. For the quarter ended March 31, 2007, our research and development expenses represented approximately 69% of our total operating expenses.

Statement of Financial Accounting Standards Board (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises,” states that an enterprise shall be considered to be in the development stage if either planned principal operations have not commenced or planned principal operations have commenced, but there has been no significant revenue there from. We will remain a development stage company until such time as significant revenues have been generated from the marketing and sale of our product candidates.

We expect that we may continue to incur operating losses over the next several years as we complete the development and seek regulatory approval for our product candidates, develop other product candidates and acquire and develop product portfolios in other therapeutic areas. Our results may vary depending on many factors, including:

- The progress of Trexima, our PN and PA product candidates and our other product candidates in the clinical and regulatory process;
- The establishment of new collaborations and progress and/or maintenance of our existing collaborations for the development and commercialization of any of our product candidates;
- The acquisition and/or in-licensing, and development, of other therapeutic product candidates; and
- Costs related to the pending class action lawsuit against us and our president and chief executive officer relating to the approvability of MT 100 and MT 300.

We do not currently have commercialization or manufacturing capabilities. We have entered into collaborations and currently plan to enter into additional collaborations with established pharmaceutical or pharmaceutical services companies to commercialize and manufacture our product candidates once approved. Our ability to generate revenue is dependent upon our ability, alone or with collaborators, to achieve the milestones set forth in our collaboration agreements, to enter into additional collaboration agreements, and successfully develop product candidates, obtain regulatory approvals and successfully manufacture and commercialize our future products. These milestones are earned when we have satisfied the criteria set out in our revenue recognition footnote accompanying the financial statements included elsewhere in this Quarterly Report on Form 10-Q. These payments generate large non-recurring revenue that will cause large fluctuations in quarterly and annual profit and loss.

Status of Our Product Candidates

There follows a brief discussion of the status of each of our product candidates, as well as the costs relating to our development activities. Our research and development expenses that are not direct development costs consist of personnel and other research and development departmental costs and are not allocated by product candidate. We do not maintain records that allocate our employees’ time by the projects on which they work and, therefore, are unable to identify costs related to the time that employees spend on research and development by product candidate. Total compensation and benefit costs for our personnel involved in our research and development activities during the three month period ended March 31, 2006 were \$1.6 million. Other research and development department costs for the three month period ended March 31, 2007 were \$0.1 million.

Trexima

In June 2006, we received an approvable letter from the FDA related to the NDA for Trexima. An approvable letter is an official notification from the FDA that contains conditions that must be satisfied prior to obtaining final U.S. marketing approval. The approvable letter reflected that the FDA has determined that Trexima is effective as an acute treatment for migraine headaches. The FDA requested additional safety information on Trexima, some of which required new studies. After meeting with the FDA in July 2006, we and GSK submitted a response to the approvable letter in November 2006 using additional data from GSK sponsored

clinical trials. In December 2006, we received notification that the response was not yet complete. Specifically, the FDA requested that we provide additional analyses and supporting information relating to the data we submitted in our November response. The FDA also indicated that it is necessary to provide a complete and accurate presentation of these data, which must sufficiently address their safety concerns, including cardiovascular safety. We worked with GSK to compile and format the additional data requested by the FDA and delivered a revised full response to the FDA in early February 2007. The FDA has notified us that it has accepted the amended response as a Class II review (six months), which could result in a new decision date of August 1, 2007.

As part of our NDA program for Trexima, we conducted five Phase 1 trials, two Phase 3 pivotal trials, and one 12-month open label safety trial using a formulation of Trexima developed by GSK. The Phase 3 pivotal trials, including the endpoints required to evaluate Trexima, were designed to demonstrate superiority to placebo for relief of pain and the associated symptoms of migraine (nausea, photophobia and phonophobia) at two hours. Additionally, the program was designed to demonstrate that each component makes a contribution to the efficacy of Trexima (the “combination drug rule” that the FDA requires of all combination products). The efficacy endpoint for the combination was sustained pain free, which is defined as improvement from moderate or severe pain to no pain at two hours and remaining at no pain through twenty four hours without the use of rescue medicine. Further, GSK continues to conduct pre-approval market support studies for Trexima under our IND.

We cannot reasonably estimate or know the amount or timing of the costs necessary to obtain regulatory approval of Trexima. While the FDA has accepted our amended response to the approvable letter, and we believe we have submitted adequate data to address the FDA’s concerns regarding the safety of Trexima, there are no guarantees that the FDA will find the submission to be satisfactory, that the FDA will approve the NDA, that additional testing will not be required prior to approval, or that additional warnings will not be required on the product labeling. In the event that additional clinical trials or other research and development activities are required, under our agreement, GSK will be responsible for the costs of such additional trials or activities, except for our personnel-related costs. Further, we have no assurance that GSK will continue with the development of the product in the event of additional delays in obtaining approval.

We incurred \$0.1 million in direct development costs associated with the development of MT 400/Trexima for the three-month period ended March 31, 2007 and we have incurred \$24.7 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation of our overhead expenses.

PN Program

Under our PN program, we have completed formulation development and clinical studies for several combinations of a PPI and an NSAID in a single tablet intended to provide effective management of pain and inflammation associated with chronic conditions such as osteoarthritis, and intended to have fewer gastrointestinal complications compared to an NSAID taken alone in patients at risk for developing NSAID associated gastric ulcers. To date, we have conducted studies with two PN product formulations in this program - PN 100, a combination of the PPI lansoprazole and the NSAID naproxen, and PN 200, a combination of the PPI omeprazole and naproxen. Our future development and commercialization efforts under the PN program will be covered under our exclusive collaboration agreement with AstraZeneca, which we entered into on August 1, 2006. Under our agreement with AstraZeneca, we and AstraZeneca will co-develop and AstraZeneca will commercialize proprietary fixed dose combinations of the PPI esomeprazole magnesium with the NSAID naproxen, in a single tablet. The initial product to be developed under the agreement, PN 400, is being studied for the management of pain and inflammation associated with conditions such as osteoarthritis and rheumatoid arthritis in patients who are at risk for developing NSAID-associated gastric ulcers. On March 2, 2007 we filed an IND with the FDA for PN 400 and in April 2007 the initial Phase 1 study was initiated.

In discussions with the FDA during 2005 regarding our development plans for studies to pursue FDA approval of PN 100 and PN 200, the FDA agreed that by including naproxen as the NSAID within the PN formulation, we could expect that all indications for use of naproxen in adults would accrue to the PN product, if clinical trials successfully demonstrated improved safety (lower incidence of gastric ulcers) of the PN product compared with naproxen alone and the PN formulation was shown to be bioequivalent to marketed formulations of naproxen. Prior to entering into our collaboration agreement with AstraZeneca, we completed a study designed to demonstrate the bioequivalence of the naproxen component of our PN 200 product candidate development formulation to enteric-coated naproxen. This study demonstrated that the PN formulation was bioequivalent to the reference drug, EC Naprosyn®.

In early 2006, we submitted a Special Protocol Assessment (SPA) to the FDA for our pivotal Phase 3 clinical trials for PN 200. The SPA is a process in which the FDA provides evaluations and guidance on clinical trial protocols for pivotal Phase 3 clinical trials. In April 2006, we announced that we had reached an agreement with the FDA on the Phase 3 pivotal clinical trials for PN 200 for the treatment of the signs and symptoms of osteoarthritis, rheumatoid arthritis and ankylosing spondylitis in patients at risk of developing NSAID-associated gastric ulcers. We also reached agreement with the FDA that the development program and study design proposed for PN 200 would be applicable to a product that contained an isomer of omeprazole combined with naproxen. In light of our collaboration agreement with AstraZeneca, we, along with AstraZeneca, expect to meet with the FDA during the second

quarter of 2007 to confirm whether, notwithstanding the use of a different PPI, the core development program and the SPA already agreed upon will apply to the new product consisting of proprietary fixed dose combinations of esomeprazole magnesium with naproxen.

In the third quarter of 2006, we began recruiting subjects for a six month comparative trial of PN 200 as compared to enteric coated naproxen in patients requiring chronic NSAID therapy. The primary endpoint for the trial is the cumulative incidence of gastric ulcers over six months of treatment. Because we will not have final results until the fourth quarter of 2007, we will review the interim results of this trial in the third quarter prior to commencing Phase 3 studies of PN 400. If we and AstraZeneca are satisfied that the PN 200 trial will be successful based on our assessment of the preliminary data, and we have successfully completed a cross-over gastric pH-based dose ranging study for PN 400 to be initiated in the second quarter of 2007, we will begin our Phase 3 program for PN 400 as soon as clinical trial material is manufactured and ready for use. Absent any additional requirements imposed by the FDA prior to the commencement of the Phase 3 program, we currently expect to commence Phase 3 trials for PN 400 in the third quarter of 2007.

Successful completion of the PN 200 trial and the PN 400 dose ranging trial described above would trigger a \$20 million milestone payment from AstraZeneca. According to the terms of the AstraZeneca agreement and the current timeline, the earliest this milestone could be earned is December 2007. If one or both of these trials do not meet the pre-specified primary endpoints, AstraZeneca has the right to terminate the agreement within a specified timeframe. If the agreement is not terminated within such timeframe, the collaboration would continue and the milestone would be payable.

In 2005, we also had discussions with the FDA concerning the implications of the FDA's guidance issued in June 2005 concerning labeling of NSAID-containing products, which resulted from an FDA advisory committee meeting held in February 2005. The advisory committee addressed the safety of NSAIDs, and, in particular, the cardiovascular risks of COX-2 selective NSAIDs. Based on our discussions with the FDA reviewing division for PN products, we believe that, unless new information about naproxen safety concerns becomes available, long-term cardiovascular safety studies will not be required at this time for FDA approval of our PN product candidates containing naproxen. However, we cannot guarantee that such studies will not be required. We will continue to evaluate and review with the FDA its expectations and recommendations regarding the efficacy and safety requirements and study design necessary to support approval of NDAs for our PN and PA product candidates.

Additionally, we have met with four national European regulatory agencies to discuss the proposed development program for PN. While further clarification will be needed, based on the intention to develop the esomeprazole combination, further clinical studies, beyond those specifically required for the NDA submission in the U.S., will likely need to be conducted. In part, these studies will be required as the naproxen-containing products on the European market differ in strength and formulation from those available in the U.S. Under our agreement with AstraZeneca, AstraZeneca has responsibility for the development program for PN outside the United States, including interactions with regulatory agencies.

We cannot reasonably estimate or know the amount or timing of the costs necessary to continue exploratory development and/or complete the development of any PN product candidates we may seek to develop or when, if and to what extent we will receive cash inflows from any PN products. The additional costs that may be incurred include expenses relating to clinical trials and other research and development activities and activities necessary to obtain regulatory approvals.

We incurred direct development costs associated with the development of our PN program of \$3.7 million for the three-month period ended March 31, 2007 and we have incurred \$21.5 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation of our overhead expenses.

PA Program

As part of our PA program, we are exploring the development of a combination of a PPI and aspirin in a single tablet. Similar to the PN program, our PA product candidate is intended to have fewer gastrointestinal complications compared to an aspirin taken alone, in patients at risk for developing aspirin associated gastric ulcers. Our PA product candidates are not covered under the AstraZeneca agreement, and we have retained all rights to this program.

Our initial PA product candidate, PA 325, is currently in formulation and early-stage clinical development. We completed a Phase I proof of concept study of PA 325 in the first quarter of 2007. The primary endpoint was gastrointestinal damage as measured by the Lanza scoring system used in our previous PN studies. The results were highly significant with 10 percent of the PA group having Lanza 3 or 4 gastrointestinal damage, whereas 57.5 percent of the enteric coated aspirin group had this level of gastrointestinal damage. Furthermore, no ulcers were seen in the PA group, while 20 percent of subjects in the enteric coated aspirin 325mg group developed a gastric ulcer during the study. This difference was also statistically significant. We recently completed the dosing phase of a second proof of concept study with PA 325 as compared to 81 mg of enteric coated aspirin. We expect that database lock and analysis of the results will be completed during the second quarter of 2007.

We cannot reasonably estimate or know the amount or timing of the costs necessary to continue exploratory development and/or complete the development of any PA product candidates we may seek to develop or when, if and to what extent we will receive cash inflows from any PA products. The additional costs that may be incurred include expenses relating to clinical trials and other research and development activities and activities necessary to obtain regulatory approvals.

We incurred direct development costs associated with the development of our PA program of \$1.5 million during the three-month period March 31, 2007, and we have incurred \$3.2 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation of our overhead expenses.

Lornoxicam Program

We have conducted development work and clinical studies to investigate the development of novel product candidates containing lornoxicam, alone or in combination with other active ingredients, as potential treatments for pain or other indications. Our exploratory and development work is being conducted under an exclusive license agreement with Nycomed, pursuant to which Nycomed licensed to us certain rights to develop and commercialize products containing lornoxicam in the U.S. As a part of our agreement with Nycomed, we have also granted certain exclusive rights to Nycomed to supply us, or our commercialization partners, if any, with lornoxicam active drug substance for use in the manufacture of any of our lornoxicam product candidates.

Oral Tablet Formulation - We filed an IND with the FDA in 2003 for an oral lornoxicam tablet formulation and completed our first human study with this formulation in 2004 in patients undergoing dental surgery. The data from this study confirmed the acute safety profile for lornoxicam in these patients and provided preliminary evidence of efficacy in this pain model. As a result of the FDA advisory committee meeting held in 2005 addressing the safety and cardiovascular risks of NSAIDs, described above, the FDA has indicated that long-term cardiovascular safety studies will be required prior to NDA approval of new NSAID products that may be used on an intermittent or chronic basis, such as our oral tablet lornoxicam product candidate.

Injectable Formulation - We filed an IND with the FDA for an injectable lornoxicam formulation in May 2005, and during 2005 we initiated the first human studies with this formulation under our IND. We have completed a Phase 1 pharmacokinetic study as well as two Phase 2 studies to evaluate lornoxicam for management of acute post-operative bunionectomy pain and for management of migraine pain. In the Phase 2 bunionectomy study, both active doses of lornoxicam were significantly better than placebo in the acute management of pain following bunionectomy. Based on the results of our Phase 2 migraine study, we currently do not intend to pursue the migraine indication.

We continue to evaluate the strategic direction of our lornoxicam product candidates and the lornoxicam program based on the results of our clinical studies, the regulatory environment and commercial opportunities. We cannot reasonably estimate or know the amount or timing of the costs necessary to continue exploratory development and/or complete the development of any lornoxicam product candidates we may seek to develop or when, if and to what extent we will receive cash inflows from any lornoxicam products. The additional costs that may be incurred include expenses relating to clinical trials and other research and development activities and activities necessary to obtain regulatory approvals.

We incurred direct development costs associated with the development of our lornoxicam program of \$17,000 for the three-month period ended March 31, 2007, and we have incurred \$8.6 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation or our overhead expenses.

MT 100

In May 2004, we received a not-approvable letter from the FDA with respect to our NDA for MT 100, our proprietary combination of metoclopramide hydrochloride and naproxen sodium. In September 2005, after an FDA advisory committee concluded that the potential but unquantified risk of the occurrence of an involuntary neurological movement disorder known as tardive dyskinesia associated with the use of metoclopramide would outweigh the benefits of the MT 100 combination, we decided to discontinue further development of MT 100 in the U.S. and to reevaluate our MT 100 European strategy. As a part of that reevaluation, in September 2005 we terminated our license agreement with Nycomed for the development and commercialization of MT 100 in Denmark, Norway, Sweden and Finland in exchange for a payment to Nycomed of \$250,000. We are exploring the possibility of selling or otherwise disposing of the MT 100 asset to a third party, although there can be no assurance that we will, or will be able to, consummate such a transaction.

In October 2002, we submitted a Market Authorization Application (MAA) for MT 100 for the acute treatment of migraine to the Medicines and Healthcare Products Regulatory Agency (MHRA) in the United Kingdom (UK). In November 2005, we received notification that the MHRA had granted us marketing approval for MT 100 in the UK.

We are not currently conducting and do not plan to conduct any clinical trials for MT 100 and do not expect to incur any additional significant development costs related to MT 100. We incurred direct development costs associated with the development of MT 100 of \$19,000 for the three-month period ended March 31, 2007, and we have incurred \$39.9 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation of our overhead expenses.

MT 300

In October 2003, we received a not-approvable letter from the FDA related to our NDA for MT 300, which we had submitted in December 2002. Based upon our understanding from our most recent discussions with the FDA, in which the FDA affirmed its previously stated concerns that approval of the NDA was problematic due to the higher incidence of nausea at two hours following dosing in patients treated with MT 300 compared with placebo, and our understanding of the current FDA standards for approving migraine drugs, we do not believe it is possible to reverse the not-approvable status of the NDA for MT 300.

We began discussions with our partner, Valeant NA, regarding termination of our MT 300 commercialization agreement. In July 2005, we received a letter from Valeant NA seeking payment of a \$1.0 million withdrawal fee required under certain conditions under the agreement. Under the agreement, if we determine that additional studies or data that are required by the FDA for approval of the NDA for MT 300 would jeopardize the commercial viability of MT 300 or exceed our financial resources available for MT 300, we may elect to withdraw the NDA. If we notify Valeant NA of this situation and Valeant NA elects not to assume control of efforts to seek approval of the NDA, then, under the conditions outlined in the agreement, upon notice from Valeant NA, the agreement will terminate and we would be required to pay Valeant NA a termination fee of \$1.0 million. If Valeant NA decides to assume development, it would be credited \$1.0 million in development expense. We do not believe that the withdrawal fee is payable under the circumstances of receipt of the not-approvable letter from the FDA. The agreement requires that unresolved disputes by the parties be referred to the respective chief executive officers for resolution. If still unresolved, the agreement provides for binding arbitration. Valeant NA has disputed our conclusion that the withdrawal fee is not payable and has indicated its intention to pursue the dispute resolution provisions provided for under the agreement. We can give no assurance that Valeant NA will agree to termination terms acceptable to us, or that we will not be required to pay Valeant NA the withdrawal fee described above.

We are not currently conducting any clinical trials for MT 300 and do not expect to incur any additional significant development costs related to MT 300. Given our current assessment that we do not believe we can reverse the not-approvable status of the NDA for MT 300, we believe that we will not receive any future cash inflows from MT 300.

We incurred direct development costs associated with the development of MT 300 of \$12,000 for the three-month period ended March 31, 2007, and we have incurred \$14.6 million from inception to date. Our direct development costs do not include the cost of research and development personnel or any allocation of our overhead expenses.

Collaborative Arrangements

We have entered into and plan to continue to enter into collaborations with established pharmaceutical or pharmaceutical services companies to develop, commercialize and/or manufacture our product candidates. Our existing collaborations are described below.

GlaxoSmithKline (GSK)

In June 2003, we signed an agreement with GSK for the development and commercialization of proprietary combinations of a triptan (5-HT_{1B/1D} agonist) and a long-acting NSAID. The combinations covered by the agreement are among the combinations of MT 400. Under the terms of the agreement, GSK has exclusive rights in the U.S. to commercialize all combinations which combine GSK's triptans, including Imitrex® (sumatriptan succinate) or Amerge® (naratriptan hydrochloride), with a long-acting NSAID. We are responsible for development of the first combination product, while GSK is to provide formulation development and manufacturing. GSK has proposed Trexima as the brand name of the combination of sumatriptan succinate, formulated with GSK's RT Technology™, and naproxen sodium in a single tablet, being developed under the agreement. Pursuant to the terms of the agreement, we received \$25.0 million in initial payments from GSK following termination of the waiting period under the Hart-Scott-Rodino notification program and the issuance of a specified patent. In May 2004, we received a \$15.0 million milestone payment as a result of our commencement of Phase 3 clinical trial activities. In October 2005, we received a \$20.0 million milestone payment upon the FDA's acceptance for review of the Trexima NDA. Additionally, GSK is obligated to make payments to us in a total amount of \$20.0 million upon FDA approval of the Trexima NDA and GSK's notification of intent to commercialize Trexima. In addition, GSK will pay us two sales performance milestones totaling \$80.0 million if certain sales thresholds are achieved. Up to an additional \$10.0 million per product is payable upon achievement of milestones relating to other products. GSK will also pay us royalties on all net sales of marketed products until at least the expiration of the last to expire issued applicable patent (August 14, 2017 based upon the

scheduled expiration of currently issued patents). GSK may reduce, but not eliminate, the royalty payable to us if generic competitors attain a pre-determined share of the market for the combination product, or if GSK owes a royalty to one or more third parties for rights it licenses from such third parties to commercialize the product. The agreement terminates on the date of expiration of all royalty obligations unless earlier terminated by either party for a material breach or by GSK at any time upon ninety (90) days' written notice to us for any reason or no reason. Among the contract breaches that would entitle us to terminate the agreement is GSK's determination not to further develop the combination product under certain circumstances. GSK has the right, but not the obligation, to bring, at its own expense, an action for infringement of certain patents by third parties. If GSK does not bring any such action within a certain time frame, we have the right, at our own expense, to bring the appropriate action. With regard to certain other patent infringements, we have the sole right to bring an action against the infringing third party. Each party generally has the duty to indemnify the other for damages arising from breaches of each party's representations, warranties and obligations under the agreement, as well as for gross negligence or intentional misconduct. We also have a duty to indemnify GSK for damages arising from our development and manufacture of MT 400 prior to the effective date of the agreement, and each party must indemnify the other for damages arising from the development and manufacture of any combination product after the effective date.

AstraZeneca AB (AstraZeneca)

In August 2006, we entered into a collaboration and license agreement with AstraZeneca, a Swedish corporation, regarding the development and commercialization of proprietary fixed dose combinations of the PPI esomeprazole magnesium with the NSAID naproxen, in a single tablet for the management of pain and inflammation associated with conditions such as osteoarthritis and rheumatoid arthritis in patients who are at risk for developing NSAID associated gastric ulcers. Under the terms of the agreement, we granted to AstraZeneca an exclusive, fee-bearing license, in all countries of the world except Japan, under our patents and know-how relating to combinations of gastroprotective agents and NSAIDs (other than aspirin and its derivatives). AstraZeneca may, at no additional cost, elect to include Japan in the licensed territory within two years after the effective date of the agreement.

Pursuant to the terms of the agreement, we received an upfront license fee of \$40 million from AstraZeneca following termination of the waiting period under the Hart-Scott-Rodino notification program. In addition, AstraZeneca has agreed to make milestone payments upon the achievement of certain development events and sales events. If all development milestones are achieved, total development milestone payments due us under the agreement will be \$160 million. If all sales milestone events are achieved, total sales milestone payments due us under the agreement will be \$175 million. We will also receive a royalty based on annual net sales by AstraZeneca, its affiliates or sublicensees under the agreement during the royalty term. The royalty rate varies based on the level of annual net sales of products made by AstraZeneca, its affiliates and sublicensees, with percentages ranging from the mid-single digits to the mid-teens. In addition, the agreement provides for certain reductions to the royalty rate based on qualified royalty payments to other third parties and loss of market share due to generic competition. Our right to receive royalties from AstraZeneca for the sale of such products expires on a country-by-country basis upon the later of (a) expiration of the last-to-expire of certain patent rights relating to such products in that country, and (b) ten years after the first commercial sale of such products in such country.

We retain responsibility for the development and filing of the New Drug Application (NDA) for the product in the U.S. AstraZeneca is responsible for all development activities outside the U.S., as well as for all manufacturing, marketing, sales and distribution activities worldwide. We have agreed to bear all expenses related to certain specified U.S. development activities. All other development expenses, including all manufacturing-related expenses, will be paid by AstraZeneca. The agreement establishes joint committees with representation of both us and AstraZeneca to manage the development and commercialization of the product. The committees will operate by consensus, but if consensus cannot be reached, we generally will have the deciding vote with respect to development activities required for marketing approval of the product in the U.S. and AstraZeneca generally will have the deciding vote with respect to any other matters.

The agreement, unless earlier terminated, shall expire upon the payment of all applicable royalties for the products commercialized under the agreement. Either party has the right to terminate the agreement by notice in writing to the other party upon or after any material breach of the agreement by the other party, if the other party has not cured the breach within 90 days after written notice to cure has been given, with certain exceptions. The parties also can terminate the agreement for cause under certain defined conditions. In addition, AstraZeneca can terminate the agreement at will, for any reason or no reason, in its entirety or with respect to countries outside the U.S., upon 90 days' notice. If terminated at will, AstraZeneca will owe us a specified termination payment or, if termination occurs after the product is launched, AstraZeneca may, at its option, under and subject to the satisfaction of conditions specified in the agreement, elect to transfer the product and all rights to us.

Nycomed Danmark ApS (Nycomed)

Lornoxicam

In May 2003, we entered into a development, option and license agreement with Nycomed pursuant to which we obtained an exclusive license to certain development rights during the option period and an exclusive option to license certain rights to develop, manufacture and commercialize products containing lornoxicam. In July 2005, we exercised the option and were granted an exclusive license, with the right to sublicense, develop, manufacture and commercialize single-entity products and combination products containing lornoxicam in the U.S. (and its territories) and Canada (the Exclusive Territory). We were granted a non-exclusive license to develop and commercialize combination products containing lornoxicam in Belgium, Germany, Greece, France, Ireland, Luxembourg, The Netherlands, Austria, Finland, Denmark, United Kingdom, Sweden, Armenia, Azerbaijan, Belarus, Estonia, Georgia, Iceland, Kazakhstan, Kyrgyzstan, Latvia, Liechtenstein, Lithuania, Moldova, Norway, Russia, Switzerland, Tajikistan, Turkmenistan, Ukraine and Uzbekistan (the Limited Territory). We were granted a non-exclusive license to manufacture single-entity and combination products containing lornoxicam outside of the Exclusive Territory, excluding certain countries. We granted Nycomed a right of first refusal with respect to the development, manufacturing and commercialization, in Iceland, Denmark, Norway, Finland, Sweden, Lithuania, Latvia, Estonia, Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine, of certain combination lornoxicam products that we may develop under the agreement.

Pursuant to the agreement, we paid Nycomed a total of \$500,000 for upfront and milestone payments during the option period. We paid Nycomed a non-refundable \$500,000 payment in August 2005 to exercise our option under the agreement. We will be obligated to pay additional milestone payments in an aggregate amount of up to \$500,000 upon the occurrence of certain regulatory approvals. In addition, we will be obligated to pay Nycomed specified single digit royalties on all net sales of any licensed single-entity or combination lornoxicam products, with the amount of such royalties for single-entity lornoxicam products subject to reduction upon the occurrences of certain specified events. The obligation to pay such royalties expires on a product-by-product and country-by-country basis ten (10) years from the first commercial sale of a product in a given country. We are also obligated to pay Nycomed a specified single digit percentage of any upfront and milestone payments we may receive from our sublicensees up to a preset maximum amount per sub-licensee.

As a part of the agreement, Nycomed will supply us with all of our required clinical supply of active drug substance, and may also supply some clinical trial materials under certain conditions. Under the agreement, subject to Nycomed's ability to meet a specified percentage of our and each of our sublicensee's requirements, we and each of our sublicensees (each, a buyer) must purchase all of their required commercial supply of active drug substance from Nycomed for a minimum of five years. For each buyer, this exclusive 5-year purchase commitment for each of the Exclusive Territory and the Limited Territory begins with the buyer's first commercial sale of its first licensed lornoxicam product in a particular specified country within the Exclusive Territory and the Limited Territory, respectively, as applicable.

Each party generally has the duty to indemnify the other for damages arising from each party's breach of its representations, warranties and obligations under the agreement, as well as for gross negligence or willful misconduct. In addition, we must indemnify Nycomed for any claim brought by a third party arising from our development, testing, manufacture or sale of any licensed product. Further, each party has a duty to maintain commercially reasonable insurance coverage commensurate with its obligations under the agreement. Nycomed has the right, but not the obligation, to bring, at its own expense, an action for infringement of certain patents by third parties. If Nycomed does not bring any such action within a certain time frame, we have the right, but not the obligation, at our own expense, to bring the appropriate action. The agreement terminates upon the date of expiration of all royalty obligations unless terminated earlier by either party for material breach or upon the bankruptcy, insolvency or dissolution of either party, or by us if we determine in good faith that it is not commercially or scientifically feasible to continue development and commercialization efforts with respect to products using the licensed technology. Nycomed also may terminate the agreement if we or any sublicensee initiates a lawsuit challenging the validity of any licensed patent.

MT 100

In June 2003, we signed a license agreement with Nycomed for the commercialization of MT 100 in four Nordic countries and received an initial license fee of \$500,000. As a result of our decision to discontinue development of MT 100 in the U.S. and to re-evaluate our MT 100 European strategy, we terminated this agreement and the related supply agreement with Nycomed in September 2005 pursuant to the terms of a termination agreement. The termination agreement provided for the immediate termination of the license and supply agreements and all rights and obligations of the parties under those agreements, subject to the survival of certain specified provisions, including under the license agreement, those related to confidentiality and indemnification obligations, ownership rights, and limitation of warranty and liability, and under the supply agreement, those related to confidentiality obligations. Subject to these surviving provisions and the parties' obligations under the termination agreement, the parties also agreed to mutually release each other from any and all present and future claims resulting from events existing as of the date of the termination.

agreement. As consideration for Nycomed's consent to enter into the termination agreement and the mutual release, we paid Nycomed \$250,000.

Valeant Pharmaceuticals North American (Valeant NA) (formerly Xcel Pharmaceuticals Inc.)

In September 2003, we signed an agreement with Valeant NA for the further development and commercialization of MT 300. In March 2005, Valeant Pharmaceuticals International (Valeant International) acquired Valeant NA. Under the terms of the agreement, Valeant NA would have exclusive rights in the United States to commercialize MT 300 subject to certain minimum commercialization obligations. Pursuant to the terms of the agreement, Valeant NA paid us an upfront fee of \$2.0 million. Upon certain future regulatory approvals, including the FDA's approvals relating to MT 300, and the achievement of a predetermined sales threshold on MT 300, potential milestone payments of up to \$8.0 million would be due. Valeant NA is also obligated to pay us royalties on all combined net sales of MT 300 and Valeant NA's D.H.E. 45[®] (dihydroergotamine mesylate) Injection, upon commercialization of MT 300, until at least the expiration of the last to expire issued applicable patent (2020, based upon the scheduled expiration of the last to expire currently issued applicable patent), subject to reduction in certain instances of generic competition, or in the event that Valeant NA pays royalties to one or more third parties to license rights from such third parties to commercialize MT 300. The agreement terminates on the date of expiration of all royalty obligations (2020, based upon the scheduled expiration of the last to expire currently issued applicable patent) unless earlier terminated by either party for a material breach or in the event that either party determines not to pursue approval of MT 300, under the conditions described below. Under certain circumstances, the agreement provides for the terminating party to facilitate the assumption of its responsibilities by the non-terminating party. Generally, each party must indemnify the other for damages arising from such party's breach of its representations, warranties and obligations under the agreement, as well as for the gross negligence or willful misconduct by either party. Additionally, Valeant NA must indemnify us for damages arising from the development, manufacture or use of any product after the effective date of the agreement, while we must indemnify Valeant NA for any damages arising from such development, manufacture or use prior to the effective date. We must also indemnify Valeant NA for any use by us or any sub licensee of certain technology owned by Valeant NA.

Under the agreement, if we determine that additional studies or data that are required by the FDA for approval of the NDA for MT 300 would jeopardize the commercial viability of MT 300 or exceed our financial resources available for MT 300, we may elect to withdraw the NDA. If we notify Valeant of this situation and Valeant NA does not assume control of efforts to seek approval of the NDA, then, under the conditions outlined in the agreement, upon notice from Valeant NA the agreement will terminate and we would be required to pay Valeant NA a withdrawal fee of \$1.0 million. If Valeant decides to assume development, it would be credited \$1.0 million in development expense. Based upon our understandings from our most recent communications with the FDA and our understanding of the FDA's current standards for approval of migraine drugs, we believe it is not possible to reverse the not approvable status of the NDA for MT 300 and we have begun discussions regarding termination of our commercialization agreement with Valeant NA. In July 2005, we received a letter from Valeant NA seeking payment of the \$1.0 million withdrawal fee. We do not believe that the withdrawal fee is payable based on our receipt of a not-approvable letter from the FDA with respect to our NDA for MT 300. The agreement requires that unresolved disputes by the parties be referred to the respective chief executive officers for resolution. If still unresolved, the agreement provides for binding arbitration. Valeant NA has disputed our conclusion that the withdrawal fee is not payable and has indicated its intention to pursue the dispute resolution provisions provided for in the agreement. We intend to vigorously defend our position under the agreement. At this time, it is not possible to determine if any withdrawal fee will be required to be paid to Valeant NA upon the ultimate resolution of this dispute.

Based upon the delays related to commercialization of MT 300 due to our receipt of the not-approvable letter for MT 300 and our efforts to address with the FDA the issues raised in that letter, we and Valeant NA had previously agreed to extend the time for certain activities under our agreement with Valeant NA that are dependent on the FDA's actions with respect to MT 300. In the event of termination of the agreement, these obligations will not be relevant. We can give no assurance that Valeant NA or Valeant International will agree to termination terms acceptable to us or that we will not be required to pay Valeant NA the withdrawal fee of \$1.0 million described above.

Results of Operations

Three months ended March 31, 2007 compared to the three months ended March 31, 2006

Net loss per share: Net loss attributable to common stockholders for the quarter ended March 31, 2007 was \$(2.1) million or \$(0.07) per share as compared to a net loss of \$(6.4) million, or \$(0.22) per share, for the quarter ended March 31, 2006. The net loss for the quarter ended March 31, 2007 included a \$1.5 million or \$(0.05) per share charge for non-cash stock-based compensation expense as compared to \$1.9 million or \$(0.07) per share for the same period of 2006.

Revenue: We recognized \$7.7 million of revenue for the quarter ended March 31, 2007 as compared to \$2.2 million for the quarter ended March 31, 2006. The increase in revenue was primarily due to a \$1.6 million increase in the amortization of upfront payments we received and a \$3.9 million increase in other revenue from development activities we completed in the period pursuant to our development and commercialization agreements with AstraZeneca and GSK. Our licensing and collaboration agreements have terms that include upfront payments upon contract signing and additional payments if and when certain milestones in product development or related activities are achieved. All upfront payments were deferred and the non-refundable portions are being amortized over the periods ending on the anticipated dates of regulatory approvals, as specified in the agreements relating to the product candidates, or the conclusion of any obligation on our part. Approximately \$35.2 million remains in deferred revenue at March 31, 2007. Substantive milestone payments are recognized as revenue upon completion of the contractual events.

Research and development: Research and development expenses increased by \$1.8 million to \$7.3 million for the quarter ended March 31, 2007, as compared to the same period of 2006. The increase was due primarily to an increase in direct development costs for PN and PA program activities, partially offset by a decrease in direct development costs for the lornoxicam program, as compared to the same period of 2006. Direct development costs for the PN program increased by \$2.2 million to \$3.7 million, primarily due to Phase 3 clinical trial activities and other PN product development activities pursuant to the AstraZeneca agreement during the first quarter of 2007, as compared to the same period of 2006. Direct development costs for the PA program increased to \$1.5 million during the first quarter of 2007, as compared to the same period of 2006. Direct development costs for the lornoxicam program decreased by \$1.9 million primarily due to Phase I/II clinical trial activities during the first quarter of 2006 as compared to the same period of 2007. Other direct development costs and departmental expenses decreased by \$0.1 million as compared to the same period of 2006. We have included in our research and development total expenses the departmental personnel costs associated with our research and development activities and direct costs associated with pharmaceutical development, clinical trials, toxicology activities, and regulatory matters.

General and administrative: General and administrative expenses decreased by \$0.4 million to \$3.2 million for the first quarter of 2007, as compared to the same period of 2006. The decrease was due primarily to a \$0.2 million decrease in non-cash compensation charge for stock option expense and a decrease in public company legal expenses as compared to the same period of 2006. General and administrative expenses consisted primarily of the costs of administrative personnel, facility infrastructure, business development expenses and public company activities.

Other income: Interest income was \$0.3 and \$0.2 million for the quarters ended March 31, 2007 and 2006, respectively. Investment income from bond amortization for the period ended March 31, 2007 totaled \$0.5 million as compared to \$0.2 million during the same period of 2006.

Income Taxes

We estimate an effective tax rate of 0% for the year ended December 31, 2007 based upon financial results and annual forecasts available at March 31, 2007. Our effective tax rate was 0% for the three month period ended March 31, 2007. However, the actual effective rate may vary depending upon actual licensing fees and milestone payments received, specifically the pre-tax book income for the year, and other factors. Income taxes have been accounted for using the liability method in accordance with SFAS 109, "Accounting for Income Taxes." Since our inception, we have incurred substantial losses and may incur substantial and recurring losses in future periods. The Tax Reform Act of 1986 (the "Act") provides for a limitation on the annual use of net operating loss and research and development tax credit carry-forwards (following certain ownership changes, as defined by the Act) that could limit our ability to utilize these carry-forwards. We have experienced various ownership changes, as defined by the Act, as a result of, among other reasons, past financings. Accordingly, our ability to utilize the aforementioned carry-forwards may be limited. Additionally, because tax laws limit the time during which these carry-forwards may be applied against future taxes, we may not be able to take full advantage of these carry-forwards for federal and state income tax purposes.

We currently file income tax returns in the U.S. federal jurisdiction, and the state of North Carolina. We are no longer subject to federal or North Carolina income tax examinations by tax authorities for years before 2003. We do however have loss carryforwards generated from 1996 through 2002 that are subject to change.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, we recognized no increase in the liability for unrecognized tax benefits. We have no material unrecognized tax benefits as of the date of adoption.

We recognize interest and penalties accrued related to unrecognized tax benefits as income tax expense. As of the date of adoption, no interest and penalties have been accrued.

Liquidity and Capital Resources

Since our inception, we have financed our operations and internal growth primarily through private placements of preferred stock and our initial public offering, resulting in cash inflows of \$133.9 million. Since 2003, we have received \$102.5 million from upfront and milestone payments from our collaborators. Additionally, since August 2006, we have received \$4.8 million for development activities pursuant to the terms of our agreement with AstraZeneca. At March 31, 2007, cash and cash equivalents, along with short-term investments, totaled \$58.2 million, a decrease of \$4.4 million compared to December 31, 2006. The decrease in cash was primarily due to operating expenses for the period offset in part by cash receipts for development activities received from AstraZeneca pursuant to our PN collaboration agreement. Our cash is invested in money market funds that invest primarily in short-term, highly rated investments, including U.S. Government securities, commercial paper and certificates of deposit guaranteed by banks and short-term corporate fixed income obligations and U.S. Government agency obligations.

We received \$3.3 million in operating cash during the quarter ended March 31, 2007 pursuant to the terms of our collaboration agreement with AstraZeneca. In addition, our balance sheet includes \$4.0 million in accounts receivable for invoiced development activities under the terms of the AstraZeneca agreement. Cash received from financing activities during the period totaled \$0.1 million, reflecting net proceeds from the exercise of stock options.

Based upon the direct method of presenting cash flow, cash used in operating activities totaled \$8.5 million for the quarter ended March 31, 2007. The indirect method for presenting cash flow is used in the Statement of Cash Flows included in our financial statements. Cash used in operating activities was \$28.8 million for the fiscal year ended December 31, 2006 and \$27.4 million for the fiscal year ended December 31, 2005. Net cash provided by investing activities during the quarter ended March 31, 2007 totaled \$9.8 million, reflecting investing activities associated with the sale of short-term securities. These holdings were reinvested in securities with maturities of three months or less and are classified on our balance sheet as cash and cash equivalents.

As of March 31, 2007, we had \$31.2 million in cash and cash equivalents and \$27.0 million in short-term investments. Our operating expenses for 2007 and 2008 are expected to increase from the level of our operating expenses in 2006. However, we believe that we will have sufficient cash reserves to maintain that level of business activities through 2008 provided that certain development expenses are paid by AstraZeneca, as outlined in the agreement.

As part of our ongoing assessment of our business and liquidity needs, we regularly assess available funding options and will consider available funding opportunities as they arise. We may sell shares of common stock in the future to fund additional development activities and increase our working capital. We have filed with the Securities and Exchange Commission (SEC), and the SEC has declared effective, a shelf registration statement on Form S-3 under which we may register up to 8,540,000 shares of our common stock for sale in one or more public offerings. Certain selling stockholders named in the prospectus for the registration statement may offer up to an aggregate of 540,000 of such shares, and we will not receive any of the proceeds from the sales of shares made by the selling stockholders. Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants.

Our forecast of the period of time through which we expect that our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary as a result of a number of factors. Our future capital requirements will depend on many factors, including:

- the number and progress of our clinical trials and other trials and studies;
- our success, or any delays, in obtaining, and any delays in obtaining, regulatory approval of our product candidates and success in, and manner of, commercializing our products;
- the success of our existing collaborations and our ability to establish additional collaborations;
- the extent to which we acquire or invest in businesses, technologies or products;
- costs incurred to enforce and defend our patent claims and other intellectual rights;
- our ability to negotiate favorable terms with various contractors assisting in our trials and studies; and
- costs incurred in the defense of the class action lawsuit that is pending against us and our president and chief executive officer relating to MT 100 and MT 300.
-

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The proceeds from our initial public offering and, private placements and revenue from our collaboration agreements have been invested, in accordance with our investment policy, in money market funds that invest primarily in short-term, highly-rated

investments, including U.S. Government securities, commercial paper and certificates of deposit guaranteed by banks and short-term corporate fixed income obligations and U.S. Government and Government agency obligations. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes. Because of the short-term maturities of our investments, we do not believe that a decrease in market rates would have a significant negative impact on the value of our investment portfolio.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosures. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter 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

Five purported class action lawsuits were filed during 2004 by holders of our securities against us and certain of our current and former officers, in the U. S. District Court for the Middle District of North Carolina, alleging violations of securities laws. These actions were filed as a single consolidated amended complaint on December 20, 2004. The amended complaint alleges, among other claims, violations of federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 and Section 20(a) of the Exchange Act against us and Dr. John R. Plachetka, our chairman and chief executive officer, arising out of allegedly false and misleading statements made by us concerning our product candidates, MT 100 and MT 300, during the class period. The amended complaint requests certification of a plaintiff class consisting of purchasers of our stock between October 4, 2002 and May 28, 2004. On January 27, 2005, we filed a motion to dismiss the amended complaint. On August 30, 2005, our motion to dismiss was denied and the case is now in the discovery phase. On March 27, 2006, a motion for class certification was filed. The court granted the motion and certified the case as a class action on February 28, 2007. Pretrial discovery is now underway.

We believe that the allegations in the class action lawsuit are without merit and intend to defend this action vigorously. While we cannot predict the outcome or reasonably estimate the range of potential loss, if any, from this litigation, it is the current judgment of management that it is unlikely that this litigation will have a material adverse effect on our results of operation or financial condition.

Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. These risks and uncertainties are not the only ones we face. You should recognize that other significant risks and uncertainties may arise in the future, which we cannot foresee at this time. Also, the risks that we now foresee might affect us to a greater or different degree than expected. Certain risks and uncertainties, including ones that we currently deem immaterial or that are similar to those faced by other companies in our industry or business in general, may also affect our business. If any of the risks described below actually occur, our business, financial condition or results of operations could be materially and adversely affected.

Risks Related to Our Business

We depend heavily on the success of our product candidates, which may never be approved for commercial use. If we are unable to develop, gain approval of or commercialize those product candidates, we will never receive revenues from the sale of our product candidates.

We anticipate that for the foreseeable future our ability to achieve profitability will be dependent on the successful development, approval and commercialization of our current product candidates. Many factors could negatively affect our ability to obtain regulatory approval for our product candidates. For example, in June 2006 we received an approvable letter relating to our NDA for Trexima, in which the FDA requested additional safety information on Trexima, some of which required new studies. We submitted a full response to the FDA's approvable letter in November 2006. In December 2006, the FDA told us the full response was not a complete submission and requested that we provide additional analyses and supporting information relating to the data we submitted in our November response. The FDA also indicated that it is necessary to provide a complete and accurate presentation of these data, which must sufficiently address their safety concerns, including cardiovascular safety. We worked with GSK to compile and format the additional data requested by the FDA and delivered a revised full response to the FDA in early February 2007. However, there can be no guarantee that the FDA will approve our NDA based on the information contained in our response to the approvable letter, or at all. Further, we decided to discontinue development of MT 100 in the U.S. and to explore the possibility of selling or otherwise disposing of the MT 100 asset, based upon the determination of an FDA Advisory Committee in August 2005. The FDA Advisory Committee determined, following our receipt of a not approvable letter from the FDA in 2004 for our NDA for MT 100, that the potential, but unquantified, risk of tardive dyskinesia, an involuntary movement disorder associated with the use of metoclopramide, one of the components of MT 100, outweighed the benefits, as defined by the FDA, of metoclopramide hydrochloride in combination with naproxen sodium. Further, based upon our understandings from our latest communications with the FDA, in which the FDA restated its concerns that approval of MT 300 was problematic due to the higher incidence of nausea at two hours following dosing in patients treated with MT 300 compared with placebo, we do not believe it is possible to reverse the not approvable status of MT 300 stated in the not approvable letter we received from the FDA in 2003.

In addition to the inability to obtain regulatory approval, many other factors could negatively affect the success of our efforts to develop and commercialize our product candidates, including those discussed in the risk factors that follow as well as negative, inconclusive or otherwise unfavorable results from any studies or clinical trials, such as those that we obtained with respect to MT 500, which led to our decision to discontinue development of that product candidate in 2002.

We have incurred losses since inception and we may continue to incur losses for the foreseeable future. We do not have a current source of product revenue.

We have incurred significant losses since our inception. As of March 31, 2007, we had an accumulated deficit of approximately \$133.9 million. Our ability to receive product revenue from the sale of products is dependent on a number of factors, principally the development, regulatory approval and successful commercialization of our product candidates. We expect that the amount of our operating losses will fluctuate significantly from quarter to quarter principally as a result of increases and decreases in our development efforts and the timing of payments that we may receive from others. We expect to continue to incur significant operating losses and do not know when, if and to what extent we will generate product revenue.

Our only current potential sources of revenue are the payments that we may receive pursuant to our collaboration agreements with GSK and AstraZeneca. Our remaining milestone payments under our collaboration agreement with GSK related to Trexima are payable upon FDA approval and notification of GSK's intent to commercialize Trexima. As a result of our receipt in June 2006 of an approvable letter relating to our NDA for Trexima requesting certain additional safety information, we cannot guarantee when or if we will receive future payments under that agreement. Further, we may have to pay Valeant NA a \$1.0 million withdrawal fee if we do not prevail in our current dispute with them as to whether the withdrawal fee is payable. This amount is currently reflected in our financial statements as deferred revenue and will never be recognized as revenue if repaid.

Changes in regulatory approval policy or statutory or regulatory requirements, or in the regulatory environment, during the development period of any of our product candidates may result in delays in the approval, or rejection, of the application for approval of one or more of our product candidates. If we fail to obtain approval, or are delayed in obtaining approval, of our product candidates, our ability to generate revenue will be severely impaired.

The process of drug development and regulatory approval for product candidates takes many years, during which time the FDA's interpretations of the standards against which drugs are judged for approval may evolve or change. The FDA can also change its approval policies based upon changes in laws and regulations. In addition, it can decide, based on its then current approval policies, any changes in those policies and its broad discretion in the approval process, to weigh the benefits and the risks of every drug candidate. As a result of any of the foregoing, the FDA may decide that the data we submit in support of an application for approval of

a drug candidate are insufficient for approval. Further, changes in policy or interpretation may not be the subject of published guidelines and may therefore be difficult to evaluate. For example, the FDA has not recently published guidelines for the approval of new migraine therapies, and we have had to rely on periodic guidance from the FDA obtained in conversations and other meetings, the content of which may be subject to significant modification over the period of a drug's development program. There is also the risk that we and the FDA may interpret such guidance differently.

Further, additional information about the potential risks of marketed drugs may affect the regulatory approval environment, or the FDA's approval policies, for new product candidates. For example, in February 2005 an advisory committee convened by the FDA met to address the potential cardiovascular risks of COX-2 selective NSAIDs and related drugs in response to disclosures made about possible adverse effects from the use of some of these drugs. On April 7, 2005 the FDA issued a Public Health Advisory (Advisory) based, in part, upon the recommendations of the advisory committee. The Advisory stated that it would require that manufacturers of all prescription products containing NSAIDs provide warnings regarding the potential for adverse cardiovascular events as well as life-threatening gastrointestinal events associated with the use of NSAIDs. Moreover, subsequent to the FDA advisory committee meeting in February 2005, the FDA has indicated that long-term studies evaluating cardiovascular risk will be required for approval of new NSAID products that may be used on an intermittent or chronic basis. For example, we believe that long-term cardiovascular safety studies will be required for NDA approval of any oral lornoxicam product candidate we may develop. We do not know to what extent the FDA's actions may otherwise adversely affect or delay the approvability of our Trexima, PN or other product candidates that contain NSAIDs.

If we, or our current or future collaborators, do not obtain and maintain required regulatory approvals for one or more of our product candidates, we will be unable to commercialize those product candidates. Further, if we are delayed in obtaining or unable to obtain, any required approvals, our collaborators may terminate, or be entitled to terminate, their agreements with us or reduce or eliminate their payments to us under these agreements or we may be required to pay termination payments under these agreements.

Our product candidates under development are subject to extensive domestic and foreign regulation. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertisement, promotion, sale and distribution of pharmaceutical products in the United States. In order to market our products abroad, we must comply with extensive regulation by foreign governments. If we are unable to obtain and maintain FDA and foreign government approvals for our product candidates, we, alone or through our collaborators, will not be permitted to sell them. Failure to obtain regulatory approval for a product candidate will prevent us from commercializing that product candidate. Except for MT 100, which has been approved for sale in the UK, none of our product candidates have been approved for sale in the U.S. or any foreign market and they may never be approved. For example, in June 2006, we received an approvable letter relating to our NDA for Trexima in which the FDA requested additional safety information on Trexima, thereby delaying regulatory approval, and any subsequent commercial sales, if at all. We also previously received not-approvable letters from the FDA relating to our NDAs for MT 100 and MT 300.

In the U.S., a separate NDA or supplement must be filed with respect to each indication for which marketing approval of a product is sought. Each NDA, in turn, requires the successful completion of preclinical, toxicology, genotoxicity and carcinogenicity studies, as well as clinical trials demonstrating the safety and efficacy of the product for that particular indication. We may not receive regulatory approval of any of the NDAs that we file with the FDA or of any approval applications we may seek in the future outside the U.S.

Further, our current or future collaboration agreements may terminate, or require us to make certain payments to our collaborators, or our collaborators may have the right to terminate their agreements with us or reduce or eliminate their payments to us under these agreements, based on our inability to obtain, or delays in obtaining, regulatory approval for our product candidates. For example, under our PN collaboration agreement with AstraZeneca, AstraZeneca has the right to terminate the agreement if certain delays occur or specified development and regulatory objectives are not met. GSK has the right to terminate its agreement with us relating to the development and commercialization of Trexima upon 90 days notice for any reason, and substantial delays in obtaining regulatory approval to market Trexima could increase this risk of termination. Further, under our MT 300 collaboration agreement with Valeant NA, we may elect to withdraw the NDA, if we determine that additional studies or data that are required by the FDA for approval of the NDA would jeopardize the commercial viability of MT 300 or exceed our financial resources available for MT 300. If we notify Valeant NA of this situation and Valeant NA elects not to assume control of efforts to seek approval of the NDA, then upon notice from Valeant, the agreement would terminate and we would be required to pay to Valeant NA a withdrawal fee of \$1.0 million. Based on the not-approvable letter received from the FDA with respect to MT 300, we began discussions regarding termination of our commercialization agreement with Valeant NA. In July 2005, we received a letter from Valeant NA seeking payment of the \$1.0 million withdrawal fee required under certain conditions under the agreement. We do not believe that the withdrawal fee is payable based on our receipt of a not-approvable letter from the FDA with respect to our NDA for MT 300. The agreement requires that unresolved disputes by the parties be referred to the respective chief executive officers for resolution. If still unresolved, the agreement provides for binding arbitration. Valeant NA has disputed our conclusion that the withdrawal fee is not payable and has indicated its

intention to pursue the dispute resolution provisions provided for in the agreement. We can give no assurance that Valeant NA will agree to termination terms acceptable to us or that we will not be required to pay Valeant NA the \$1.0 million withdrawal fee.

If we or our contract manufacturers do not maintain required regulatory approvals, we may not be able to commercialize our products. Approval of a product candidate may be conditioned upon certain limitations and restrictions as to the drug's use, or upon the conduct of further studies, and is subject to continuous review. The FDA may also require us to conduct additional post-approval studies. These post-approval studies may include carcinogenicity studies in animals or further human clinical trials. The later discovery of previously unknown problems with the product, manufacturer or manufacturing facility may result in criminal prosecution, civil penalties, recall or seizure of products, or total or partial suspension of production, as well as other regulatory action against our product candidates or us. If approvals are withdrawn for a product, or if a product is seized or recalled, we would be unable to sell that product and therefore would not receive any revenues from that product.

We and our contract manufacturers are required to comply with the applicable FDA current Good Manufacturing Practices ("cGMP") regulations, which include requirements relating to quality control and quality assurance, as well as the corresponding maintenance of records and documentation.

Further, manufacturing facilities must be approved by the FDA before they can be used to manufacture our product candidates, and are subject to additional FDA inspection. We, or our third-party manufacturers, may not be able to comply with cGMP regulations or other FDA regulatory requirements, which could result in a delay or an inability to manufacture the products.

Labeling and promotional activities are subject to scrutiny by the FDA and state regulatory agencies and, in some circumstances, the Federal Trade Commission. FDA enforcement policy prohibits the marketing of unapproved products as well as the marketing of approved products for unapproved, or off-label, uses. These regulations and the FDA's interpretation of them may impair our or our partners' ability to effectively market products for which we gain approval. Failure to comply with these requirements can result in federal and state regulatory enforcement action. Further, we may not obtain the labeling claims we believe are necessary or desirable for the promotion of our product candidates.

Our reliance on collaborations with third parties to develop and commercialize our products is subject to inherent risks and may result in delays in product development and lost or reduced revenues, restricting our ability to commercialize our products and adversely affecting our profitability.

Under our current strategy, and for the foreseeable future, we expect to depend upon collaborations with third parties to develop our product candidates and we expect to depend substantially upon third parties to commercialize our products. As a result, our ability to develop, obtain regulatory approval of, manufacture and commercialize our existing and any future product candidates depends upon our ability to maintain existing, and enter into and maintain new, contractual and collaborative arrangements with others. We also engage, and intend in the future to continue to engage, contract manufacturers and clinical trial investigators.

In addition, the identification of new compounds or product candidates for development has led us, and may continue to require us, to enter into license or other collaborative agreements with others, including pharmaceutical companies and research institutions, such as our license and development agreement with Nycomed pursuant to which we obtained an exclusive license to certain rights to develop, manufacture and commercialize products containing lornoxicam. Such collaborative agreements for the acquisition of new compounds or product candidates would typically require us to pay license fees, make milestone payments and/or pay royalties. Furthermore, these agreements may result in our revenues being lower than if we developed our product candidates ourselves and in our loss of control over the development of our product candidates.

Contractors or collaborators may have the right to terminate their agreements with us or reduce their payments to us under those agreements on limited or no notice and for reasons outside of our control. We currently have a collaboration with GSK for the development and commercialization of certain triptan combinations using our MT 400 technology, including Trexima, in the U.S., a global collaboration with AstraZeneca for the development and commercialization of proprietary combinations of gastroprotective agents and naproxen, and a collaboration with Valeant NA in the U.S. for the development and commercialization of MT 300. In these collaboration agreements, as well as under our lornoxicam license agreement with Nycomed described above, our collaborators have the right to terminate the agreement upon a default by us. In addition, GSK and AstraZeneca are entitled to terminate their respective agreements with us upon 90 days' notice for any reason. Substantial delays in obtaining regulatory approval to market Trexima, such as may result from our receipt in June 2006 of an approvable letter relating to our NDA for Trexima in which the FDA requested additional safety information, could increase this risk of termination of the GSK agreement. Additionally, both GSK and AstraZeneca have the right to reduce the royalties on net sales of products payable to us under their respective agreements if generic competitors attain a pre-determined share of the market for products marketed under the agreements, or if either GSK or AstraZeneca must pay a royalty to one or more third parties for rights it licenses from those third parties to commercialize products marketed under the agreements. AstraZeneca is also entitled to terminate its agreement with us if certain delays occur or specified development or regulatory objectives are not met. Valeant NA is entitled to terminate its agreement with us and a \$1.0 million withdrawal fee payable by us in the event we choose to withdraw the NDA if we determine that additional studies or data that are required by the FDA for approval of the NDA would jeopardize the commercial viability of MT 300 or exceed our financial resources available for MT 300.

Due to our belief that the FDA will not approve the NDA for MT 300, we began discussions with Valeant NA regarding termination of our agreement. Valeant NA has demanded payment of the \$1.0 million withdrawal fee, which POZEN is disputing.

If our current or future licensees exercise termination rights they may have, or if these license agreements terminate because of delays in obtaining regulatory approvals, or for other reasons, and we are not able to establish replacement or additional research and development collaborations or licensing arrangements, we may not be able to develop and/or commercialize our product candidates. Moreover, any future collaborations or license arrangements we may enter into may not be on terms favorable to us.

A further risk we face with our collaborations is that business combinations and changes in the collaborator or their business strategy may adversely affect their willingness or ability to complete their obligations to us.

Our current or any future collaborations or license arrangements ultimately may not be successful. Our agreements with collaborators typically allow them discretion in electing whether to pursue various regulatory, commercialization and other activities or with respect to the timing of the development, such as our agreement with GSK under which GSK determined, among other things, the exact formulation and composition of the product candidates using our MT 400 technology for use in the Trexima clinical trials. Similarly, under our agreement with AstraZeneca, AstraZeneca has the right to manufacture clinical trial material itself or through a third party. If AstraZeneca experiences delays in supplying such clinical trial material, the start of pivotal studies could be delayed. If any collaborator were to breach its agreement with us or otherwise fail to conduct collaborative activities in a timely or successful manner, the pre-clinical or clinical development or commercialization of the affected product candidate or research program would be delayed or terminated. Any delay or termination of clinical development or commercialization, such as the delay in FDA approval we are currently experiencing as a result of the approvable letter we received from the FDA in June 2006 related to our Trexima NDA, would delay or possibly eliminate our potential product revenues. Further, our collaborators may be able to exercise control, under certain circumstances, over our ability to protect our patent rights under patents covered by the applicable collaboration agreement. For example, under our collaboration agreements with GSK and AstraZeneca, GSK and AstraZeneca each has the first right to enforce our patents under their respective agreements and would have exclusive control over such enforcement litigation.

Other risks associated with our collaborative and contractual arrangements with others include the following:

- we may not have day-to-day control over the activities of our contractors or collaborators;
- our collaborators may fail to defend or enforce patents they own on compounds or technologies that are incorporated into the products we develop with them;
- third parties may not fulfill their regulatory or other obligations;
- we may not realize the contemplated or expected benefits from collaborative or other arrangements; and
- disagreements may arise regarding a breach of the arrangement, the interpretation of the agreement, ownership of proprietary rights, clinical results or regulatory approvals.

These factors could lead to delays in the development of our product candidates and/or the commercialization of our products or reduction in the milestone payments we receive from our collaborators, or could result in our not being able to commercialize our products. Further, disagreements with our contractors or collaborators could require or result in litigation or arbitration, which would be time-consuming and expensive. Our ultimate success may depend upon the success and performance on the part of these third parties. If we fail to maintain these relationships or establish new relationships as required, development of our product candidates and/or the commercialization of our products will be delayed or may never be realized.

A collaborator may withdraw support or cease to perform work on our product candidates if the collaborator determines to develop its own competing product candidate instead.

We have entered into collaboration and license agreements, and expect to continue to enter into such agreements, with companies that have products and are developing new product candidates that compete or may compete with our product candidates. If one of our collaborators should decide that the product or a product candidate that the collaborator is developing would be more profitable for the collaborator than our product candidate covered by the collaboration or license agreement, the collaborator may withdraw support for our product candidate or may cease to perform under our agreement. In the event of a termination of the collaborator's agreement upon such cessation of performance, we would need to negotiate an agreement with another collaborator in order to continue the development and commercialization efforts for the product candidate. If we were unsuccessful in negotiating another agreement, we might have to cease development activities of the particular product candidate. For example, our development and commercialization agreement with GSK is subject to this risk. GSK has publicly disclosed that it is exploring the development of several compounds for the treatment of migraine. If GSK decides to focus its development and commercialization efforts on its own

products rather than continuing to work with us on Trexima or any other product candidates that may be developed under the agreement, it has the ability to terminate our agreement upon 90 days' written notice. Any substantial delays in obtaining, or failure to obtain, regulatory approval from the FDA to market Trexima, including as a result of our receipt in June 2006 from the FDA of an approvable letter requesting additional safety information for Trexima, would exacerbate this risk. In such a case, we would need to enter into a new development and commercialization agreement and would need to start the development process all over again. If we were able to negotiate a new development and commercialization agreement to develop our MT 400 technology, which is not certain, we would face delays and redundant expenses in that development.

We need to maintain current agreements and enter into additional agreements with third parties that possess sales, marketing and distribution capabilities, or establish internally the capability to perform these functions, in order to successfully market and sell our future drug products.

We have no sales or distribution personnel or capabilities. If we are unable to maintain current collaborations or enter into additional collaborations with established pharmaceutical or pharmaceutical services companies to provide those capabilities, or, alternatively, we are unable to develop internally sales and distribution capabilities, we will not be able to successfully commercialize our products. To the extent that we enter into marketing and sales agreements with third parties, our revenues, if any, will be affected by the sales and marketing efforts of those third parties. Further, we cannot guarantee that, should we elect to develop our own sales and distribution capabilities, we would have sufficient resources to do so, or would be able to hire the qualified sales and marketing personnel we would need.

Because we do not believe it is possible to convince the FDA to reverse its conclusion as stated in its not-approvable letter for MT 300, we do not expect to receive any revenue from sales of MT 300 in the U. S.

In October 2003, we received a not-approvable letter from the FDA related to our NDA for MT 300. The letter was issued based on the FDA's conclusion that we had not submitted substantial evidence of effectiveness for MT 300 as an acute treatment for migraine. The FDA noted that, although MT 300 provided a statistically significant improvement over placebo on the pre-defined endpoint of sustained pain relief at 24 hours post dose as well as relief of pain at two hours post dose, MT 300 failed to achieve statistical significance versus placebo for the relief of all of the ancillary symptoms of migraine (nausea, photophobia and phonophobia) at two hours. Further, the FDA noted that the incidence of nausea, one of the associated symptoms of migraine, was statistically significantly higher following MT 300 treatment versus placebo at two hours. After our receipt of the not-approvable letter, we had continuing communications with the FDA regarding the MT 300 NDA. Based upon our understandings from our most recent communications with the FDA and our understanding of the FDA's current standards for approval of migraine drugs, we do not believe it is possible to reverse the not approvable status of the MT 300 NDA. Therefore, we do not believe that we will receive any revenue from sales of MT 300 in the U.S.

We need to conduct preclinical, toxicology, genotoxicity and carcinogenicity and other safety studies, and clinical trials for our product candidates. Any negative or unanticipated results, unforeseen costs or delays in the conduct of these studies or trials, or the need to conduct additional studies or trials or to seek to persuade the FDA to evaluate the results of a study or trial in a different manner, could cause us to discontinue development of a product candidate or reduce, delay or eliminate our receipt of potential revenues for one or more of our product candidates and adversely affect our ability to achieve profitability.

Generally, we must demonstrate the efficacy and safety of our product candidates before approval to market can be obtained from the FDA or the regulatory authorities in other countries. Our existing and future product candidates are and will be in various stages of clinical development. Depending upon the type of product candidate and the stage of the development process of a product candidate, we will need to complete preclinical, toxicology, genotoxicity and carcinogenicity and other safety studies, as well as clinical trials, on these product candidates before we submit marketing applications in the United States and abroad. These studies and trials can be very costly and time-consuming. For example, long-term cardiovascular safety studies, such as those the FDA has indicated will be required for approval of certain product candidates containing NSAIDs, typically take approximately three years. In addition, we rely on third parties to perform significant aspects of our studies and clinical trials, introducing additional sources of risk into our development programs.

It should be noted that the results of any of our preclinical and clinical trial testing are not necessarily predictive of results we will obtain in subsequent or more extensive clinical trials or testing. This may occur for many reasons, including, among others, the variability of patient characteristics, including patient symptoms at the time of study treatment, the larger scale testing of patients in later trials, or differences in formulation or doses of the product candidate used in later trials. For example, our results from the first of our two Phase 3 pivotal clinical trials of Trexima differed from the results of our second Phase 3 clinical trial and from the Phase 2 proof-of-concept trial of MT 400 that we conducted prior to entering into our collaboration with GSK. Whereas in the Phase 2 trial statistical significance was reached at two hours over placebo in the relief of all associated symptoms of migraine (nausea, photophobia and phonophobia), in the first Phase 3 study Trexima failed to achieve statistical significance at two hours compared to

placebo in the relief of nausea. In the second Phase 3 pivotal clinical trial, Trexima demonstrated superiority over the individual components measured by sustained pain-free response ($p < 0.001$ vs. naproxen; $p = 0.009$ vs. sumatriptan) and met all other regulatory endpoints versus placebo.

The successful completion of any of our clinical trials depends upon many factors, including the rate of enrollment of patients. If we are unable to recruit sufficient clinical patients during the appropriate period, we may need to delay our clinical trials and incur significant additional costs. We also rely on the compliance of our clinical trial investigators with FDA regulatory requirements and noncompliance can result in disqualification of a clinical trial investigator and data that is unusable. In addition, the FDA or Institutional Review Boards may require us to conduct additional trials or delay, restrict or discontinue our clinical trials on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. For example, even though we are entitled to submit an NDA for Trexima as a 505(b)(2) application, the FDA may require us to conduct more studies or trials than we now believe are necessary or required.

Further, even though we may have completed all clinical trials for a product candidate that were planned for submission in support of a marketing application, we may be required to conduct additional clinical trials, studies or investigations or to submit additional data to support our marketing applications. In addition, we and/or our marketing or development partners may determine that pre-approval marketing support studies should be conducted. Unanticipated adverse outcomes of such studies, including recognition of certain risks to human subjects, could have material impact on the approval of filed or planned market applications or could result in limits placed on the marketing of the product. We may also determine from time to time that it would be necessary to seek to provide justification to the FDA or other regulatory agency that would result in evaluation of the results of a study or clinical trial in a manner that differs from the way the regulatory agency initially or customarily evaluated the results. In addition, we may have unexpected results in our preclinical or clinical trials or other studies that require us to reconsider the need for certain studies or trials or cause us to discontinue development of a product candidate. For example, results from a genotoxicity study involving MT 400 may require us to conduct chronic toxicology and carcinogenicity studies for Trexima or other MT 400 product candidates we may develop.

Once submitted, an NDA requires FDA approval before the product described in the application can be distributed or commercialized. Even if we determine that data from our clinical trials, toxicology, genotoxicity and carcinogenicity studies are positive, we cannot assure you that the FDA, after completing its analysis, will not determine that the trials or studies should have been conducted or analyzed differently, and thus reach a different conclusion from that reached by us, or request that further trials, studies or analyses be conducted. For example, the FDA has requested additional safety information on Trexima in the approvable letter we received in June 2006 relating to our NDA for Trexima, which required conduct of additional studies. We submitted a full response to the FDA's approvable letter in November 2006, but were told by the FDA that it was not a complete submission and that additional analyses and supporting information relating to the new data were required. The FDA also indicated that it is necessary to provide a complete and accurate presentation of these data, which must sufficiently address their safety concerns, including cardiovascular safety. We worked with GSK to compile and format the additional data requested by the FDA and delivered a revised full response to the FDA in early February 2007. While the FDA has accepted our amended response to the approvable letter for review, there is no guarantee that the FDA will approve the NDA based on the additional information and study results contained in our amended response, or at all, that additional testing will not be required prior to approval, or that additional warnings will not be required on the product labeling. Further, although we believe that we provided the necessary data to support approval of the NDAs for MT 100 and MT 300, the FDA issued not-approvable letters for the MT 100 and MT 300 NDAs in May 2004 and October 2003, respectively, and based upon our understandings from our most recent communication with the FDA and our understanding of the FDA's current standards for approval of migraine drugs, we do not believe it is possible to reverse the not approvable status of the NDA for MT 300. In addition, based upon our receipt of the not approvable letter for MT 100 and the outcome of an August 2005 FDA Advisory Committee meeting relating to the potential risk of tardive dyskinesia associated with the use of one of the components of MT 100, we made the decision to discontinue further development of MT 100 in the U.S.

The FDA may also require data in certain subpopulations, such as pediatric use, or, if such studies were not previously completed, may require long-term carcinogenicity studies, prior to NDA approval, unless we can obtain a waiver of such a requirement. We face similar regulatory hurdles in other countries to those that we face in the U.S.

Our costs associated with our human clinical trials vary based on a number of factors, including:

- the order and timing of clinical indications pursued;
- the extent of development and financial support from collaborative parties, if any;
- the need to conduct additional clinical trials or studies;
- the number of patients required for enrollment;

- the difficulty of obtaining sufficient patient populations and clinicians;
- the difficulty of obtaining clinical supplies of our product candidates; and
- governmental and regulatory delays.

We currently depend and will in the future depend on third parties to manufacture our product candidates. If these manufacturers fail to meet our requirements or any regulatory requirements, the product development and commercialization of our product candidates will be delayed.

We do not have, and have no plans to develop, the internal capability to manufacture either clinical trial or commercial quantities of products that we may develop or have under development. We rely upon third-party manufacturers and our partners to supply us with our product candidates. We also need supply contracts to sell our products commercially. There is no guarantee that manufacturers that enter into commercial supply contracts with us will be financially viable entities going forward, or will not otherwise breach or terminate their agreements with us. If we do not have the necessary commercial supply contracts, or if our current manufacturer is, or any of our future manufacturers are, unable to satisfy our requirements or meet any regulatory requirements, and we are required to find alternative sources of supply, there may be additional costs and delays in product development and commercialization of our product candidates or we may be required to comply with additional regulatory requirements.

If our competitors develop and commercialize products faster than we do or if their products are superior to ours, our commercial opportunities will be reduced or eliminated.

Our product candidates will have to compete with existing and any newly developed migraine therapies or therapies for any newly developed product candidates for the treatment of other diseases. There are also likely to be numerous competitors developing new products to treat migraine and the other diseases and conditions for which we may seek to develop products in the future, which could render our product candidates or technologies obsolete or non-competitive. For example, our primary competitors will likely include large pharmaceutical companies (including, based upon their current migraine portfolios, GSK, Merck & Co., AstraZeneca, Johnson & Johnson, Pfizer, Inc. and Endo Pharmaceuticals), biotechnology companies, universities and public and private research institutions. The competition for our PN products that receive regulatory approval will come from the oral NSAID market, or more specifically the traditional non-selective NSAIDs (such as naproxen and diclofenac), traditional NSAID/gastroprotective agent combination products or combination product packages (such as Arthrotec[®] and Prevacid[®] NapraPAC[™]), combinations of NSAIDs and PPIs taken as separate pills and the only remaining COX-2 inhibitor, Celebrex[®].

Based upon their drug product and pipeline portfolios and the overall competitiveness of our industry, we believe that we face, and will continue to face, intense competition from other companies for securing collaborations with pharmaceutical companies, establishing relationships with academic and research institutions, and acquiring licenses to proprietary technology. Our competitors, either alone or with collaborative parties, may also succeed with technologies or products that are more effective than any of our current or future technologies or products. Many of our actual or potential competitors, either alone or together with collaborative parties, have substantially greater financial resources, and almost all of our competitors have larger numbers of scientific and administrative personnel than we do.

Many of these competitors, either alone or together with their collaborative parties, also have significantly greater experience than we do in:

- developing product candidates;
- undertaking preclinical testing and human clinical trials;
- obtaining FDA and other regulatory approvals of product candidates; and
- manufacturing and marketing products.

Accordingly, our actual or potential competitors may succeed in obtaining patent protection, receiving FDA or other regulatory approval or commercializing products where we cannot or before we do. Any delays we encounter in obtaining regulatory approvals for our product candidates, such as we are currently experiencing as a result of the approvable letter we received from the FDA in June 2006 relating to the Trexima NDA, and as we previously experienced as a result of the not-approvable letters we received from the FDA on MT 100 and MT 300, increase this risk. Our competitors may also develop products or technologies that are superior to those that we are developing, and render our product candidates or technologies obsolete or non-competitive. If we

cannot successfully compete with new or existing products, our marketing and sales will suffer and we may not ever receive any revenues from sales of products or may not receive sufficient revenues to achieve profitability.

If there is an adverse outcome in the securities class action lawsuits that have been filed against us or our current or former directors and officers, our business may be materially harmed. Further, defending against these lawsuits may be expensive and will divert the attention of our management.

Four purported class action lawsuits claiming violations of securities laws were filed between June 4 and July 28, 2004 in the U.S. District Court for the Middle District of North Carolina by holders of our securities against us and certain of our current and former officers. These actions have been consolidated for pre-trial purposes. A fifth case filed on August 6, 2004 has also been consolidated with those actions for pre-trial purposes. By order dated November 4, 2004, the court appointed a lead plaintiff, who filed a consolidated amended complaint (amended complaint) on December 20, 2004. The defendants named in the amended complaint are POZEN and John R. Plachetka, our chairman and chief executive officer. The complaint alleges violations of federal securities laws, including violations of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5, and violations of Section 20(a) of the Exchange Act against Dr. Plachetka. The amended complaint alleges that we made false and misleading statements concerning our product candidates MT 100 and MT 300 during the class period. The amended complaint requests certification of a plaintiff class consisting of purchasers of our stock between October 4, 2002 and May 28, 2004. In January 2005, we moved to dismiss the amended complaint. On August 30, 2005, our motion to dismiss the complaint was denied and the case is now in the discovery phase. On March 27, 2006, a motion for class certification was filed. The court granted the motion and certified the case as a class action on February 28, 2007. Pretrial discovery is now underway.

As with any litigation proceeding, we cannot predict with certainty the eventual outcome of the pending class action lawsuit described above. Furthermore, we will have to incur expenses in connection with this lawsuit, which may be substantial. In the event of an adverse outcome, our business could be materially harmed. Moreover, responding to and defending the pending litigation will result in a significant diversion of management's attention and resources and an increase in professional fees.

If we are unable to protect our patents or proprietary rights, or if we are unable to operate our business without infringing the patents and proprietary rights of others, we may be unable to develop our product candidates or compete effectively.

The pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our success will depend, in part, on our ability, and the ability of our licensors, to obtain and to keep protection for our products and technologies under the patent laws of the United States and other countries, so that we can stop others from using our inventions. Our success also will depend on our ability to prevent others from using our trade secrets. In addition, we must operate in a way that does not infringe, or violate, the patent, trade secret and other intellectual property rights of other parties.

We cannot know how much protection, if any, our patents will provide or whether our patent applications will issue as patents. The breadth of claims that will be allowed in patent applications cannot be predicted and neither the validity nor enforceability of claims in issued patents can be assured. If, for any reason, we are unable to obtain and enforce valid claims covering our products and technology, we may be unable to prevent competitors from using the same or similar technology or to prevent competitors from marketing identical products. In addition, due to the extensive time needed to develop, test and obtain regulatory approval for our products, any patents that protect our product candidates may expire early during commercialization. This may reduce or eliminate any market advantages that such patents may give us. In certain territories outside the U.S., our issued patents may be subject to opposition by competitors within a certain time after the patent is issued. For example, in October 2005 oppositions were filed against our issued European patent for MT 400 by Merck & Co., Inc. and Almirall Prodesfarma asserting that the European patent should not have been granted. Such opposition proceedings may not be resolved for several years, and may result in the revocation of the issued patent.

We may need to submit our issued patents for amendment or reissue if we determine that any claims within our patents should not have been issued. While such a submission may be based on our view that only specified claims should not have been granted to us, there can be no assurance that a patent examiner will not determine that additional claims should not have been granted to us. Such was the case with one of our patents covering MT 100, which we submitted for reissue after determining that certain specified claims that are not central to our protection of MT 100 should not have been issued. In April 2006, we received an office action on the reissue application and, consistent with our decision not to devote further resources to the development of this product in the U.S., the reissue application was abandoned in January 2007.

We may need to license rights to third party patents and intellectual property to continue the development and marketing of our product candidates. If we are unable to acquire such rights on acceptable terms, our development activities may be blocked and we may be unable to bring our product candidates to market.

We may enter into litigation to defend ourselves against claims of infringement, assert claims that a third party is infringing one or more of our patents, protect our trade secrets or know-how, or determine the scope and validity of others' patent or proprietary rights. As a result of such litigation, our patent claims may be found to be invalid, unenforceable or not of sufficient scope to cover the activities of an alleged infringement. With respect to some of our product candidates, under certain circumstances, our development or commercialization collaborators have the first right to enforce our patents and would have exclusive control over such enforcement litigation. For example, under our collaboration agreements with GSK and AstraZeneca, GSK and AstraZeneca each has the first right to enforce our patents under their respective agreements.

If we are found to infringe the patent rights of others, then we may be forced to pay damages in an amount that might irreparably harm our business and/or be prevented from continuing our product development and marketing activities. Additionally, if we or our development or commercialization collaborator seek to enforce our patents and are unsuccessful, we may be subject to claims for bringing a failed enforcement action, including claims alleging various forms of antitrust violations (both state and federal) and unfair competition. If we are found to be liable for such claims, then we may be forced to pay damages in an amount that might irreparably harm our business and/or be prevented from continuing our product development and commercialization activities. Even if we are successful in defending any such claims of infringement or in asserting claims against third parties, such litigation is expensive, may have a material effect on our operations, and may distract management from our business operations. Regardless of its eventual outcome, any lawsuit that we enter into may consume time and resources that would impair our ability to develop and market our product candidates.

We have entered into confidentiality agreements with our employees, consultants, advisors and collaborators. However, these parties may not honor these agreements and, as a result, we may not be able to protect our rights to unpatented trade secrets and know-how. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how. Also, many of our scientific and management personnel were previously employed by competing companies. As a result, such companies may allege trade secret violations and similar claims against us.

If we fail to acquire, develop and commercialize additional products or product candidates, or fail to successfully promote or market approved products, we may never achieve profitability.

As part of our business strategy, we plan to identify, self-invent and/or acquire product candidates or approved products in areas in which we possess particular knowledge. Because we do not directly engage in basic research or drug discovery, we may rely upon third parties to sell or license product opportunities to us. Other companies, including some with substantially greater financial, marketing and sales resources, are competing with us to acquire such products and product candidates. We may not be able to acquire rights to additional products or product candidates on acceptable terms, if at all. In addition, if we acquire new products or product candidates with different marketing strategies, distribution channels and bases of competition than those of our current product candidates, we may not be able to compete favorably in those product categories.

None of our future products may be accepted by the market.

Even if our product candidates perform successfully in clinical trials and are approved by the FDA and other regulatory authorities, our future products may not achieve market acceptance and may not generate the revenues that we anticipate. The degree of market acceptance will depend upon a number of factors, including:

- the receipt and timing of regulatory approvals;
- the availability of third-party reimbursement;
- the indications for which the product is approved;
- the rate of adoption by healthcare providers;
- the rate of product acceptance by target patient populations;
- the price of the product relative to alternative therapies;
- the availability of alternative therapies;

- the extent and effectiveness of marketing efforts by us and third-party distributors and agents;
- the existence of adverse publicity regarding our products or similar products; and
- the extent and severity of side effects as compared to alternative therapies.

If we do not receive adequate third-party reimbursements for our future products, our revenues and profitability will be reduced.

Our ability to commercialize our product candidates successfully will depend, in part, on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, such as Medicare and Medicaid in the U.S., private health insurers and other organizations. Significant uncertainty exists as to the reimbursement status of a newly approved healthcare product. Adequate third-party coverage may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product research and development. If adequate coverage and reimbursement levels are not provided by government and third-party payors for use of our products, our products may fail to achieve market acceptance.

Our future revenues, profitability and access to capital will be affected by the continuing efforts of governmental and private third-party payors to contain or reduce the costs of healthcare through various means. We expect that a number of federal, state and foreign proposals will seek to control the cost of drugs through governmental regulation. We are unsure of the form that any healthcare reform legislation may take or what actions federal, state, foreign and private payors may take in response to any proposed reforms. Therefore, we cannot predict the effect of any implemented reform on our business.

If product liability lawsuits are successfully brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

The testing and marketing of pharmaceutical products entails an inherent risk of product liability. Product liability claims might be brought against us by consumers, healthcare providers, pharmaceutical companies or others selling our future products. If we cannot successfully defend ourselves against such claims, we may incur substantial liabilities or be required to limit the commercialization of our product candidates. We have product liability insurance that covers our human clinical trials in an amount equal to up to \$10.0 million annual aggregate limit with a \$0.1 million deductible per claim. The amount of insurance that we currently hold may not be adequate to cover all liabilities that may occur. However, insurance coverage is becoming increasingly expensive, and no assurance can be given that we will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for and intend to commercialize any of our products and commercial sales of the product begin. However, we may not be able to obtain commercially reasonable product liability insurance for any products approved for marketing. If a plaintiff brings a successful product liability claim against us in excess of our insurance coverage, if any, we may incur substantial liabilities and our business may be harmed or fail.

We may need additional funding and may not have access to capital. If we are unable to raise capital when needed, we may need to delay, reduce or eliminate our product development or commercialization efforts.

In the future, we may need to raise additional funds to execute our business strategy. We have incurred losses from operations since inception and we may continue to incur additional operating losses. Our actual capital requirements will depend upon numerous factors, including:

- the progress of our research and development programs;
- the progress of preclinical studies, clinical and other testing or the need conduct additional trials, studies or other testing;
- the time and cost involved in obtaining any regulatory approvals;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the effect of competing technological and market developments;

- the timing of our receipt, if any, of milestone payments and royalties under collaborative agreements;
- the effect of changes and developments in, or termination of, our collaborative, license and other relationships;
- the terms and timing of any additional collaborative, license and other arrangements that we may establish; and
- our ability to arrange for the commercialization of our product candidates.

Our operating expenses for the year ended December 31, 2006 totaled \$35.2 million, including non-cash compensation expense of \$5.5 million related to stock options and other stock-based awards, primarily associated with our adoption of SFAS No. 123(R) on January 1, 2006. For fiscal years 2004 through 2006, our average annual operating expenses (including average non-cash deferred compensation of \$2.4 million) were \$30.7 million. We are currently in discussions with AstraZeneca on the timing and scope of marketing studies to support the commercialization of PN 400. These marketing studies may impact revenue and expenses for the 2007 year. During the first quarter of 2007 we estimated operating expenses for the 2007 fiscal year to be between \$50.0 million and \$55.0 million, including \$6.4 million of non-cash compensation expenses, related to stock options and other stock-based awards, resulting from our adoption of SFAS 123(R) on January 1, 2006. Increased operating expenses, under that estimate, were expected to be partially offset by revenue of between \$14.0 million and \$18.0 million for work performed under the AstraZeneca agreement. As of March 31, 2007, we had an aggregate of \$58.2 million in cash and cash equivalents and short-term investments. If our operating expenses for 2007 and 2008 remain at the level of our operating expenses in 2006, we believe that we will have sufficient cash reserves to maintain that level of business activities through 2008 provided certain increased development expenses are paid by AstraZeneca, as outlined in the agreement. However, our expenses might increase in 2007 and 2008 beyond currently expected levels if we decide to, or any regulatory agency requires us to, conduct additional clinical trials, studies or investigations for any of our product candidates, including in connection with the agency's consideration, or reconsideration, of our regulatory filings for our product candidates. In addition, we may be required to pay Valeant NA a withdrawal fee of \$1.0 million if we do not prevail in our current dispute with them as to whether a withdrawal fee is payable under our MT 300 collaboration agreement.

We may be unable to raise additional equity funds when we desire to do so due to unfavorable market conditions in our industry or generally, or other unforeseen developments in our business. Further, we may not be able to find sufficient debt or equity funding, if at all, on acceptable terms. If we cannot, we may need to delay, reduce or eliminate research and development programs and therefore may not be able to execute our business strategy. Further, to the extent that we obtain additional funding through collaboration and licensing arrangements, it may be necessary for us to give up valuable rights to our development programs or technologies or grant licenses on terms that may not be favorable to us.

The sale by us of additional equity securities or the expectation that we will sell additional equity securities may have an adverse effect on the price of our common stock.

We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our research and development efforts.

We are highly dependent on the efforts of our key management and scientific personnel, especially John R. Plachetka, Pharm.D., our Chairman, President and Chief Executive Officer. Dr. Plachetka signed an amended and restated employment agreement with us on March 14, 2006, for a three-year term with automatic one-year renewal terms. We have also entered into employment agreements with certain of our other key management personnel, which provide for one or two-year terms with automatic one-year renewal terms. If we should lose the services of Dr. Plachetka, or are unable to replace the services of our other key personnel who may leave the Company, such as Dr. Marshall E. Reese, Executive Vice President, Product Development, William L. Hodges, Senior Vice President Finance and Administration and Chief Financial Officer, or Kristina M. Adomonis, Senior Vice President, Business Development or if we fail to recruit other key scientific personnel, we may be unable to achieve our business objectives. There is intense competition for qualified scientific personnel. Since our business is very science-oriented, we need to continue to attract and retain such people. We may not be able to continue to attract and retain the qualified personnel necessary for developing our business. Furthermore, our future success may also depend in part on the continued service of our other key management personnel and our ability to recruit and retain additional personnel, as required by our business.

Factors That May Affect Our Stockholders

Our stock price is volatile, which may result in significant losses to stockholders.

There has been significant volatility in the market prices of biotechnology companies' securities. Various factors and events may have a significant impact on the market price of our common stock. These factors include:

- fluctuations in our operating results;
- announcements of technological innovations, acquisitions or licensing of therapeutic products or product candidates by us or our competitors;
- published reports by securities analysts;
- positive or negative progress with our clinical trials or with regulatory approvals of our product candidates;
- governmental regulation, including reimbursement policies;
- developments in patent or other proprietary rights;
- developments in our relationships with collaborative partners;
- developments in new or pending litigation;
- public concern as to the safety and efficacy of our products; and
- general market conditions.

The trading price of our common stock has been, and could continue to be, subject to wide fluctuations in response to these factors, including the sale or attempted sale of a large amount of our common stock into the market. From October 16, 2000, when our common stock began trading on The National Market (now known as The NASDAQ Global Market), through March 31, 2007, the high and low sales prices of our common stock ranged from \$2.25 to \$21.75. Broad market fluctuations may also adversely affect the market price of our common stock.

Sales of substantial amounts of our common stock in the public market could depress our stock price.

We have not sold shares of common stock in a public offering since our initial public offering in October 2000. Accordingly, we have a relatively small number of shares that are traded in the market and four of our stockholders and their affiliates beneficially hold approximately 34% of our outstanding shares. Any sales of substantial amounts of our common stock in the public market, including sales or distributions of shares by our large stockholders, or the perception that such sales might occur, could harm the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. For example, our chief executive officer and one of our directors may sell up to an aggregate of 1,010,000 shares pursuant to Rule 10b5-1 trading plans. Sales under those plans began in October 2006. Further, stockholders' ownership will be diluted if we raise additional capital by issuing equity securities. We have filed with the SEC, and the SEC has declared effective, a shelf registration statement on Form S-3 under which we may register up to 8,540,000 shares of our common stock for sale to the public in one or more public offerings. Certain selling stockholders named in the prospectus for the registration statement may offer up to 540,000 of such shares, and we would not receive any of the proceeds from sales of those shares.

Anti-takeover provisions in our charter documents and under Delaware law could prevent or delay transactions that our stockholders may favor and may prevent stockholders from changing the direction of our business or our management.

Provisions of our charter and bylaws may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares, and may also frustrate or prevent any attempt by stockholders to change the direction or management of POZEN. For example, these provisions:

- authorize the issuance of "blank check" preferred stock without any need for action by stockholders;
- provide for a classified board of directors with staggered three-year terms;
- require supermajority stockholder approval to effect various amendments to our charter and bylaws;
- eliminate the ability of stockholders to call special meetings of stockholders;

- prohibit stockholder action by written consent; and
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Further, in January 2005 our board of directors adopted a stockholder rights plan, similar to plans adopted by many other publicly-traded companies. The stockholder rights plan is intended to deter an attempt to acquire us in a manner or on terms not approved by our board of directors.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.1	Contingent Annual Bonus Agreement with John R. Plachetka executed February 14, 2007.
10.2	Nonqualified Stock Option Grant issued to John R. Plachetka dated February 14, 2007 under Registrant's 2000 Equity Compensation Plan as Amended and Restated.
10.3	Restricted Stock Unit Agreement with John R. Plachetka dated February 14, 2007 under Registrant's 2000 Equity Compensation Plan as Amended and Restated.
10.4	Long-Term Cash Incentive Award Agreement between the Registrant and John R. Plachetka dated February 14, 2007.
10.5	Contingent Annual Bonus Agreement with Marshall R. Reese executed January 8, 2007.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

POZEN Inc.
(Registrant)

May 3, 2007

By: /s/ JOHN R. PLACHETKA
John R. Plachetka
President and Chief Executive Officer

May 3, 2007

By: /s/ WILLIAM L. HODGES
William L. Hodges
Chief Financial Officer

May 3, 2007

By: /s/ JOHN E. BARNHARDT
John E. Barnhardt
Principal Accounting Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1*	Contingent Annual Bonus Agreement with John R. Plachetka executed February 14, 2007.
10.2*	Nonqualified Stock Option Grant issued to John R. Plachetka dated February 14, 2007 under Registrant's 2000 Equity Compensation Plan as Amended and Restated.
10.3*	Restricted Stock Unit Agreement with John R. Plachetka dated February 14, 2007 under Registrant's 2000 Equity Compensation Plan as Amended and Restated.
10.4*	Long-Term Cash Incentive Award Agreement between the Registrant and John R. Plachetka dated February 14, 2007.
10.5*	Contingent Annual Bonus Agreement with Marshall R. Reese executed January 8, 2007.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

CONTINGENT ANNUAL BONUS AGREEMENT

The undersigned employee, John R. Plachetka (the “**Employee**”), acknowledges and agrees that on February 14, 2007, the Compensation Committee of the Board of Directors of POZEN Inc. (the “**Company**”) approved, as a part of Employee’s annual cash bonus for 2006, a contingent bonus amount of \$75,075.00 (the “**Contingent Bonus**”) to Employee, payable as described below and subject to the fulfillment of certain conditions as set forth herein. Employee acknowledges and agrees that, pursuant to such approval, the Contingent Bonus shall not be paid unless and until the Company has received an action letter from the U.S. Food and Drug Administration indicating approval of the New Drug Application for Trexima, the proposed brand name for the combination of GlaxoSmithKline’s sumatriptan and naproxen sodium in a single tablet being developed by the Company for the acute treatment of migraine pursuant to a development and commercialization agreement with GlaxoSmithKline (the “**Trexima Approval**”) provided that the Trexima Approval is received on or before December 31, 2007 and subject to Employee’s continuous employment by the Company. If the Trexima Approval is received by the Company on or before December 31, 2007 and Employee is employed by the Company on the date of receipt of such approval, then the Contingent Bonus shall be paid to Employee on the second business day following the Company’s receipt of the Trexima Approval. Employee further acknowledges and agrees that if the Trexima Approval is not received on or before December 31, 2007 or if the Trexima Approval is received on or before December 31, 2007 but Employee is no longer employed by the Company on such date, the Contingent Bonus shall be forfeited and Employee shall have no right or entitlement to receive the Contingent Bonus. Employee acknowledges and agrees that in the event of a Change of Control (as defined in the POZEN Inc. Equity Compensation Plan, as amended and restated) of the Company prior to December 31, 2007 and the receipt of the Trexima Approval, the Compensation Committee, in its sole discretion, may accelerate the payment of the Contingent Bonus to a time immediately prior to such Change of Control. This Agreement shall be binding upon all successors and assigns of the Company, including any corporation or other entity with which or into which the Company may be merged or which may succeed to its assets or business.

/s/ John R. Plachetka

John R. Plachetka

POZEN INC.

By: /s/ William L. Hodges

Name: William L. Hodges

Title: Senior Vice President, Finance and

Administration, and Chief Financial

Officer

POZEN INC.

2000 EQUITY COMPENSATION PLAN, AS AMENDED AND RESTATED

NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February 14, 2007 (the “Date of Grant”), is delivered by POZEN Inc. (the “Company”) to John R. Plachetka (the “Grantee”).

RECITALS

The POZEN Inc. 2000 Equity Compensation Plan, as amended and restated (the “Plan”), provides for the grant of options to purchase shares of common stock of the Company. The Compensation Committee (the “Committee”) of the Board of Directors has decided to make a stock option grant as an inducement for the Grantee to promote the best interests of the Company and its stockholders. A copy of the Plan is attached.

NOW, THEREFORE, the parties to this Agreement, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Agreement and in the Plan, the Company hereby grants to the Grantee a nonqualified stock option (the “Option”) to purchase 38,500 shares of common stock of the Company (“Shares”) at an exercise price of \$16.89 per Share. The Option shall become exercisable according to Paragraph 2 below.
2. Exercisability of Option. The Option shall become exercisable on the following dates, if the Grantee is employed by, or providing service to, the Company (as defined in the Plan) on the applicable date:

- (i) The Option shall become exercisable as to a total of 28,875 shares on the following dates:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2008	7,218.75
January 1, 2009	7,218.75
January 1, 2010	7,218.75
January 1, 2011	7,218.75

- (ii) The Option shall become exercisable as to a total of 9,625 shares (the “Contingent Portion”) on the following dates, but only if the Company shall have received, on or before December 31, 2007, an action letter from the U.S. Food and Drug Administration (FDA) indicating approval of the New Drug Application (NDA) for Trexima, the proposed brand name for the combination of GlaxoSmithKline’s sumatriptan and naproxen sodium in a single tablet being developed by the Company for the acute treatment of migraine pursuant to a development and commercialization agreement with GlaxoSmithKline (“FDA Approval”):

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2008	2,406.25
January 1, 2009	2,406.25
January 1, 2010	2,406.25
January 1, 2011	2,406.25

Notwithstanding the foregoing, if the FDA Approval is not received by the Company on or before December 31, 2007, the Contingent Portion of this Option shall immediately and automatically be forfeited in its entirety and shall no longer be outstanding as of such date.

For purposes of this Agreement, the “Final Vesting Date” shall mean January 1, 2011.

The exercisability of the Option is cumulative.

3. Term of Option.

(a) The Option shall have a term of ten years from the Date of Grant and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Agreement or the Plan.

(b) Subject to the provisions of this Paragraph 3(b), the Option shall automatically terminate upon the happening of the first of the following events:

(i) The expiration of the 90-day period after the Grantee ceases to be employed by, or provide service to, the Company, if the termination is for any reason other than Disability (as defined in the Plan), death or Cause (as defined below).

(ii) The expiration of the one-year period after the Grantee ceases to be employed by, or provide service to, the Company on account of the Grantee's Disability.

(iii) The expiration of the one-year period after the Grantee ceases to be employed by, or provide service to, the Company, if the Grantee dies while employed by, or providing service to, the Company or within 90 days after the Grantee ceases to be so employed or provide such services on account of a termination described in subparagraph (i) above.

(iv) The date on which the Grantee ceases to be employed by, or provide service to, the Company for Cause (as hereinafter defined). In addition, notwithstanding the prior provisions of this Paragraph 3, if the Grantee engages in conduct that constitutes Cause after the Grantee's employment or service terminates, the Option shall immediately terminate.

Notwithstanding the foregoing, in no event may the Option be exercised after the date that is ten years from the Date of Grant. Any portion of the Option that is not exercisable at the time the Grantee ceases to be employed by, or provide service to, the Company shall immediately terminate.

Notwithstanding anything herein to the contrary, if, prior to the Final Vesting Date, Grantee's employment is terminated by the Company without Cause (as defined below), or Grantee terminates his employment with the Company for Good Reason (as defined below), and provided that Grantee executes and does not revoke a general release in a form acceptable to the Company (the "Release"), the number of shares as to which the Option is exercisable shall be accelerated pursuant to the terms of Section 6(b)(iv) of that certain Second Amended and Restated Executive Employment Agreement dated as of March 14, 2006, by and between POZEN and Grantee (the "Executive Employment Agreement") such that the Option shall become exercisable as to a number of Shares equal to the number of Shares that would have been exercisable had such termination occurred twelve (12) months later; provided, however, that if such termination occurs prior to December 31, 2007 and receipt of the Trexima Approval has not occurred, the Contingent Portion shall be immediately forfeited in their entirety and this provision shall not apply to such Contingent Portion. For purposes of this Paragraph 3, the terms "Cause" and "Good Reason" shall have the meanings given to such terms in the Executive Employment Agreement.

4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Grantee may exercise part or all of the exercisable Option by giving the Company written notice of intent to exercise in the manner provided in this Agreement, specifying the number of Shares as to which the Option is to be exercised. On the delivery date, the Grantee shall pay the exercise price (i) in cash, (ii) with the approval of the Committee, by delivering Shares of the Company which shall be valued at their fair market value on the date of delivery, (iii) payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve. The Committee may impose from time to time such limitations as it deems appropriate on the use of Shares of the Company to exercise the Option.

(b) The obligation of the Company to deliver Shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Grantee (or other person exercising the Option after the Grantee's death) represent that the Grantee is purchasing Shares for the Grantee's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Committee deems appropriate. All obligations of the Company under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. Subject to Committee approval, the Grantee may elect to satisfy any income tax withholding obligation of the Company with respect to the Option by having Shares withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities.

5. Change of Control. The provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.
6. Restrictions on Exercise. Only the Grantee may exercise the Option during the Grantee's lifetime and, after the Grantee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Grantee, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.
7. Grant Subject to Plan Provisions. This grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option are subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the Shares, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.
8. No Employment or Other Rights. The grant of the Option shall not confer upon the Grantee any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate the Grantee's employment or service at any time. The right of the Company to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved.
9. No Stockholder Rights. Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death, shall have any of the rights and privileges of a stockholder with respect to the Shares subject to the Option, until certificates for Shares have been issued upon the exercise of the Option.
10. Assignment and Transfers. The rights and interests of the Grantee under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Grantee, by will or by the laws of descent and distribution. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Grantee, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Grantee's consent.
11. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.
12. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the President at 1414 Raleigh Road, Suite 400, Chapel Hill, N.C. 27517, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Agreement, and the Grantee has executed this Agreement, effective as of the Date of Grant.

POZEN INC.

By: /s/ William L. Hodges
Its: Senior Vice President, Finance and
Administration, and Chief Financial
Officer

Accepted: /s/ John R. Plachetka
John R. Plachetka

POZEN INC.

2000 EQUITY COMPENSATION PLAN, AS AMENDED AND RESTATED

RESTRICTED STOCK UNIT AGREEMENT

This RESTRICTED STOCK UNIT AGREEMENT (the “Agreement”), dated as of February 14, 2007 (the “Date of Grant”), is delivered by POZEN Inc. (“POZEN” or the “Company”), to John R. Plachetka (the “Grantee”).

RECITALS

The POZEN Inc. 2000 Equity Compensation Plan, as amended and restated (the “Plan”) provides for the grant of stock-based awards with respect to shares of common stock, par value \$0.001 per share, of POZEN (the “Common Stock”), in accordance with the terms and conditions of the Plan. The Compensation Committee of the Board of Directors of POZEN (the “Committee”) has decided to make a stock-based award in the form of a grant of restricted stock units, subject to the terms and conditions set forth in this Agreement and the Plan, as an inducement for the Grantee to promote the best interests of POZEN and its stockholders. The Grantee may receive a copy of the Plan by contacting the Department of Finance and Administration at POZEN.

NOW, THEREFORE, the parties to this Agreement, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Units. Subject to the terms and conditions set forth in this Agreement and the Plan, POZEN hereby grants to the Grantee 6,200 stock units (the “Restricted Units”) under the Plan. The Grantee accepts the Restricted Units and agrees to be bound by the terms and conditions of this Agreement and the Plan with respect to the Restricted Units.

2. Restricted Unit Account. Restricted Units represent hypothetical shares of Common Stock, and not actual shares of stock. POZEN shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a stockholder of POZEN with respect to any Restricted Units recorded in the account. The Grantee shall not have the right to receive any dividends or other distributions with respect to hypothetical shares of stock recorded in the Restricted Unit account; provided, however, that the Committee shall appropriately adjust the number and kind of Restricted Units in the event of a stock split, stock dividend or other change in capitalization of POZEN, as described in the Plan. The Grantee shall not have any interest in any fund or specific assets of POZEN by reason of this award or the Restricted Unit account established for the Grantee.

3. Lapse of Restrictions.

(a) The Restricted Units shall be subject to forfeiture until the restrictions on the Restricted Units lapse. The restrictions on the Restricted Units shall lapse, and the Restricted Units shall become vested, according to the following schedule, if the Grantee continues to be employed by, or provide service to, the Company (as defined in Section 5(e)(v)(A) of the Plan) from the Date of Grant until the applicable vesting date:

(i) A total of seventy-five percent (75%), or 4,650 of the Restricted Units shall vest, and the restrictions on the Restricted Units shall lapse, on the following dates:

<u>Vesting Date</u>	<u>Restricted Units</u>
January 1, 2008	1,162.5
January 1, 2009	1,162.5
January 1, 2010	1,162.5
January 1, 2011	1,162.5

(ii) A total of twenty-five percent (25%), or 1,550 of the Restricted Units (the “Contingent Units”) shall vest, and the restrictions on the Restricted Units shall lapse, on the following dates, but only if the Company shall have received, on or before December 31, 2007, an action letter from the U.S. Food and Drug Administration (FDA) indicating approval of the New Drug Application (NDA) for Trexima, the proposed brand name for the combination of GlaxoSmithKline’s sumatriptan

and naproxen sodium in a single tablet being developed by the Company for the acute treatment of migraine pursuant to a development and commercialization agreement with GlaxoSmithKline ("FDA Approval"):

<u>Vesting Date</u>	<u>Restricted Units</u>
January 1, 2008	387.5
January 1, 2009	387.5
January 1, 2010	387.5
January 1, 2011	387.5

Notwithstanding the foregoing, if the FDA Approval is not received by the Company on or before December 31, 2007, the Contingent Units shall immediately and automatically be forfeited in their entirety.

For purposes of this Agreement, the "Final Vesting Date" shall mean January 1, 2011.

The lapse of restrictions on the Restricted Units shall be cumulative, but shall not exceed 100% of the Restricted Units. If the foregoing schedule would produce fractional Units, the number of Restricted Units on which the restrictions lapse shall be rounded down to the nearest whole Unit, with all restrictions lapsing on the fourth anniversary of the Date of Grant if the Grantee is then employed by, or providing service to, the Company.

(b) When the restrictions on Restricted Units lapse as described above, the Restricted Units shall be vested and shall no longer be subject to forfeiture. The Restricted Units shall continue to be credited to an account on the Company's records (the "Restricted Unit Account"). When the Grantee ceases to be employed by, or provide service to, the Company, the Company shall pay to the Grantee whole shares of Common Stock equal to the number of vested whole Restricted Units then credited to the Restricted Unit Account, as described in Paragraph 5 below. Any vested amounts representing partial shares shall be paid in cash.

4. Termination of Restricted Units.

(a) If the Grantee ceases to be employed by, or provide service to, the Company for any reason before the restrictions on all the Restricted Units lapse, any Restricted Units for which the restrictions have not lapsed according to the vesting schedule above shall automatically terminate and shall be forfeited as of the date of the Grantee's termination of employment or service. No payment shall be made with respect to any Restricted Units that terminate as described in this Paragraph 4.

(b) Notwithstanding the foregoing, if, prior to the Final Vesting Date, Grantee's employment is terminated by the Company without Cause (as defined below), or Grantee terminates his employment with the Company for Good Reason (as defined below), and provided that Grantee executes and does not revoke a general release in a form acceptable to the Company (the "Release"), the number of Restricted Units which would have become vested on the next Vesting Date, according to the vesting schedules set forth in Paragraph 3(a) if such termination had not occurred, shall vest and the restrictions on such Restricted Units shall lapse; provided, however, that if such termination occurs prior to December 31, 2007 and receipt of the Trexima Approval has not occurred, the Contingent Units shall be forfeited in their entirety. If Grantee's employment is terminated for Cause prior to the Final Vesting Date, Grantee shall immediately forfeit all rights to any Restricted Units that have not already vested. For purposes of this Paragraph 4, the terms "Cause" and "Good Reason" shall have the meanings given to such terms in that certain Second Amended and Restated Executive Employment Agreement dated as of March 14, 2006, by and between POZEN and Grantee (the "Executive Employment Agreement").

5. Payment of Restricted Units.

(a) (i) It is intended that the Restricted Units will be distributed in accordance with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). On the fifth business day after the Grantee separates from service with POZEN (as defined under Section 409A), or on the second business day following the eighth day after Grantee executes and does not revoke the Release under the circumstances described in Paragraph 4(b), POZEN will issue to the Grantee one share of Common Stock for each whole vested Restricted Unit credited to the Restricted Unit Account pursuant to the terms of this Agreement, subject to satisfaction of the Grantee's tax withholding obligations as described below, and except as described below.

(ii) If a Change of Control (as defined in the Plan) occurs before the Grantee has separated from service with POZEN, on the closing date of the Change of Control, subject to and in accordance with Paragraph 6 below and the provisions of the Plan applicable to a Change of Control and provided that the event constituting such Change of Control is a permitted distribution event under Section 409A, POZEN will issue to the Grantee one share of Common Stock for each whole vested Restricted Unit

credited to the Restricted Unit Account, subject to satisfaction of the Grantee's tax withholding obligations as described below. Any vested amounts representing partial shares shall be paid in cash.

(iii) Notwithstanding the foregoing, if and to the extent required in order to avoid the imposition on the Grantee of any tax under Section 409A, the foregoing shares of Common Stock shall not be issued by the Company until the first business day after the date that is six (6) months after the date of Grantee's separation from service with POZEN (as defined under Section 409A).

(b) All obligations of POZEN under this Agreement shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for applicable taxes. Subject to Committee approval, the Grantee may elect to satisfy any tax withholding obligation of the Company with respect to the Restricted Units by having shares of Common Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, and local tax liabilities.

(c) The obligation of POZEN to deliver shares hereunder shall also be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Common Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the issue of shares, the shares may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Common Stock to the Grantee pursuant to this Agreement is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(d) The Grantee agrees to be bound by the Company's policies regarding transfer of shares of Common Stock and understands that there may be certain times during the year in which the Grantee will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothetically or encumbering shares.

6. Change of Control. The provisions of the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

7. Grant Subject to Plan Provisions. This grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and payment of the Restricted Units are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares issued under the Plan, (iii) changes in capitalization of POZEN and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Restricted Units pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.

8. No Employment or Other Rights. The grant of the Restricted Units shall not confer upon the Grantee any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate the Grantee's employment or service at any time. The right of the Company to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved.

9. No Stockholder Rights. Neither the Grantee, nor any person entitled to receive payment in the event of the Grantee's death, shall have any of the rights and privileges of a stockholder with respect to shares of Common Stock, until certificates for shares have been issued upon payment of Restricted Units.

10. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Grantee under this Agreement may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Grantee, by will or by the laws of descent and distribution. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate, or otherwise dispose of the Restricted Units or any right hereunder, except as provided for in this Agreement, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, POZEN may terminate the Restricted Units by notice to the Grantee, and the Restricted Units and all rights hereunder shall thereupon become null and void. The rights and protections of POZEN hereunder shall extend to any successors or assigns of POZEN and to POZEN's parents, subsidiaries, and affiliates. This Agreement may be assigned by POZEN without the Grantee's consent.

11. Unfunded Arrangement. The Grantee's rights to receive payments under this Agreement shall be no greater than the right of an unsecured general creditor of the Company. All payments shall be made from the general assets of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment.

12. Applicable Law. The validity, construction, interpretation and effect of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

13. Notice. Any notice to POZEN provided for in this Agreement shall be addressed to POZEN in care of the Vice President, Finance and Administration, at the corporate headquarters of POZEN, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of POZEN, or to such other address as the Grantee may designate to POZEN in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

IN WITNESS WHEREOF, POZEN has caused its duly authorized officer to execute this Restricted Stock Unit Agreement, and the Grantee has placed his signature hereon, effective as of the Date of Grant.

POZEN INC.

By: /s/ William L. Hodges
Name: William L. Hodges
Title: Senior Vice President, Finance and
Administration, and Chief Financial
Officer

I hereby accept the award of Restricted Units described in this Agreement, and I agree to be bound by the terms of the Plan and this Agreement. I hereby agree that all of the decisions and determinations of the Committee with respect to the Restricted Units shall be final and binding.

/s/ John R. Plachetka
Grantee

February 14, 2007
Date

POZEN INC.

LONG TERM INCENTIVE CASH AWARD AGREEMENT

This Long Term Incentive Cash Award Agreement (the "Agreement") is executed effective as of February 14, 2007 (the "Effective Date"), by and between POZEN Inc. ("POZEN" or the "Company") and John R. Plachetka ("Executive").

WHEREAS, the Compensation Committee (the "Committee") of the Board of Directors of the Company has approved the grant to Executive of a cash award of up to an aggregate amount of \$1,000,000.00 (the "Award"), payable as and on the terms described herein and subject to the fulfillment of certain conditions as set forth herein, as an inducement for Executive to promote the best interests of the Company and its stockholders; and

WHEREAS, POZEN and Executive desire to set forth certain agreements with respect to such Award.

NOW THEREFORE, the parties hereto agree as follows:

1. Award; Vesting.

(a) Executive is hereby granted the Award, which shall vest and become payable as follows:

- i. The Award shall vest and become payable in three equal installments on each of January 2, 2008, January 2, 2009 and January 2, 2010 (each, a "Vesting Date"), subject to Executive's continuing to be employed by or provide service to the Company through each such Vesting Date and, with respect to the Contingent Portion (as defined below), the satisfaction of the performance conditions set forth in subsection (ii) below. Payment of each vested installment shall be made to Executive in a lump sum payment on the second business day following each Vesting Date.
- ii. Notwithstanding the foregoing, the vesting and payment of 25% of the Award (the "Contingent Portion") shall be contingent upon receipt by the Company, on or before December 31, 2007, of the Trexima Approval (as defined below). If the Trexima Approval is received or before December 31, 2007, the Contingent Portion shall vest and become payable on each Vesting Date as described in subsection (i) above. If the Trexima Approval is not received on or before December 31, 2007 or if the Trexima Approval is received on or before December 31, 2007, but Executive has ceased to be employed by or provide service to the Company on such date, the entire Contingent Portion shall be immediately forfeited, and Executive acknowledges and agrees that he shall have no right or entitlement to receive the Contingent Portion in such event.

(b) For purposes of this Section 1, and Sections 2 and 3: (i) the term "Trexima Approval" shall mean an action letter from the U.S. Food and Drug Administration indicating approval of the New Drug Application for Trexima, the proposed brand name for the combination of GlaxoSmithKline's sumatriptan and naproxen sodium in a single tablet being developed by the Company for the acute treatment of migraine pursuant to a development and commercialization agreement with GlaxoSmithKline; and (ii) the term "employed by, or provide service to the Company" shall have the meaning given to such term in the POZEN Inc. 2000 Equity Compensation Plan, as amended and restated (the "Plan").

2. Change of Control. Notwithstanding anything to the contrary herein, in the event of and conditioned upon a Change of Control (as defined in the Plan) and unless otherwise determined by the Committee, the Award, to the extent not previously paid, shall accelerate and become payable in full, subject to (i) Executive's continuing to be employed by or provide service to the Company to such date, and (ii) with respect to the Contingent Portion, the satisfaction of the performance conditions set forth in Section 1(a)(ii) above, subject to the discretion of the Committee. Notwithstanding the foregoing, if a Change of Control occurs prior to December 31, 2007 and receipt of the Trexima Approval has not occurred, the Contingent Portion shall accelerate and become payable in full. Payment of any portion of the Award that becomes payable pursuant to this Section 2 shall be made in a lump sum payment on the date of closing of the Change of Control.

3. Continuous Employment; Termination.

(a) Payment of the Award is subject to Executive's continuing to be employed by, or provide service to, the Company; provided, however, that notwithstanding anything to the contrary herein, if, prior to the final Vesting Date, Executive is

terminated by the Company without Cause, or Executive terminates employment with the Company for Good Reason, and provided that Executive executes and does not revoke a general release in a form acceptable to the Company (the "Release"), Executive shall be entitled to receive an amount equal to the amount of the Award which would have become vested on the next Vesting Date if such termination had not occurred; provided, however, that if such termination occurs prior to December 31, 2007 and receipt of the Trexima Approval has not occurred, the Contingent Portion of such Award shall be forfeited in its entirety. If Executive is terminated for Cause, Executive will immediately forfeit all rights to any payment of the Award under this Agreement not already paid to him.

(b) Payment of any amounts payable pursuant to this Section 3 shall be made to Executive in a lump sum payment on the second business day following the eighth day after Executive executes and does not revoke the Release; provided, however, that notwithstanding the foregoing, if and to the extent required in order to avoid the imposition on Executive of any excise tax under Section 409A of the Internal Revenue Code of 1986, as amended, such payment shall not be made until, and shall be made on, the second business day after the date that is six (6) months following the date of Executive's termination of employment.

(c) For purposes of this Section 3, the terms "Cause" and "Good Reason" shall have the meanings given to such terms in that certain Second Amended and Restated Executive Employment Agreement dated as of March 14, 2006, by and between POZEN and Executive (the "Executive Employment Agreement").

4. Withholding; Taxes. All payments of the Award pursuant to this Agreement shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Company shall have the right to deduct from all such payments any federal, state or local taxes required by law to be withheld with respect to such payments. Executive shall be solely responsible for any tax consequences arising from the grant or payment of the Award, and Executive is hereby advised to should consult with his personal tax and/or financial advisors regarding the tax effects of the Award and this Agreement.
5. No Right to Employment. The grant of the Award and this Agreement shall not confer upon Executive any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate Executive's employment or service at any time. Other than such rights as may be granted to Executive in the Executive Employment Agreement, the right of the Company to terminate at will Executive's employment or services at any time for any reason is specifically reserved.
6. Assignment. This Agreement may not be assigned or transferred by Executive.
7. Unfunded Arrangement. Executive's rights to receive payments under this Agreement shall be no greater than the right of an unsecured general creditor of the Company. All payments shall be made from the general assets of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment.
8. Integration. This Agreement, as supplemented by the terms and conditions of the Plan and the Executive Employment Agreement as expressly referenced and incorporated herein, constitutes the entire understanding and agreement of POZEN and Executive with respect to the subject matter contained herein, and there are no other agreements, understandings, restrictions, representations, or warranties, oral or written, between POZEN and Executive with respect to the subject matter contained herein other than those as set forth or provided for herein.
9. Governing Law. This Agreement shall be governed by the laws of the State of Delaware as such laws are applied to agreements between Delaware residents entered into and to be performed entirely within the State of Delaware.
10. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision hereof.
11. Amendment and Waiver. No provision of this Agreement, including the provisions of this Section 11, may be amended, modified, deleted, or waived in any manner except by a written agreement executed by the parties.
12. Effect. This Agreement shall be binding on and inure to the respective benefit of the Company and its successors and assigns and Executive and his personal representatives.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

POZEN INC.

By: /s/ William L. Hodges
Name: William L. Hodges
Title: Senior Vice President, Finance and
Administration, and Chief Financial
Officer

EXECUTIVE:

/s/ John R. Plachetka
John R. Plachetka

CONTINGENT ANNUAL BONUS AGREEMENT

The undersigned employee, Marshall E. Reese (the “**Employee**”), acknowledges and agrees that on December 20, 2006, the Compensation Committee of the POZEN Inc. (the “**Company**”) approved, as a part of Employee’s annual cash bonus for 2006, a contingent bonus amount of \$48,256.00 (the “**Contingent Bonus**”) to Employee, payable as described below and subject to the fulfillment of certain conditions as set forth herein. Employee acknowledges and agrees that, pursuant to the Compensation Committee approval, the Contingent Bonus shall not be paid unless and until the Company has received an action letter from the U.S. Food and Drug Administration indicating approval of the New Drug Application for Trexima, the proposed brand name for the combination of GlaxoSmithKline’s sumatriptan and naproxen sodium in a single tablet being developed by the Company for the acute treatment of migraine pursuant to a development and commercialization agreement with GlaxoSmithKline (the “**Trexima Approval**”) provided that the Trexima Approval is received on or before December 31, 2007 and subject to Employee’s continuous employment by the Company. If the Trexima Approval is received by the Company on or before December 31, 2007 and Employee is employed by the Company on the date of receipt of such approval, then the Contingent Bonus shall be paid to Employee on the second business day following the Company’s receipt of the Trexima Approval. Employee further acknowledges and agrees that if the Trexima Approval is not received on or before December 31, 2007 or if the Trexima Approval is received on or before December 31, 2007 but Employee is no longer employed by the Company on such date, the Contingent Bonus shall be forfeited and Employee shall have no right or entitlement to receive the Contingent Bonus. Employee acknowledges and agrees that in the event of a Change of Control (as defined in the POZEN Inc. Equity Compensation Plan, as amended and restated) of the Company prior to December 31, 2007 and the receipt of the Trexima Approval, the Compensation Committee, in its sole discretion, may accelerate the payment of the Contingent Bonus to a time immediately prior to such Change of Control. This Agreement shall be binding upon all successors and assigns of the Company, including any corporation or other entity with which or into which the Company may be merged or which may succeed to its assets or business.

By: /s/ Marshall E. Reese
Marshall E. Reese

POZEN INC.

By: /s/ William L. Hodges
 Name: William L. Hodges
 Title: Senior Vice President, Finance and
Administration, and Chief Financial
Officer

Section 302 Certification

I, John R. Plachetka, certify that:

1. I have reviewed this Form 10-Q of POZEN 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 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 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.

Date: May 3, 2007

/s/ John R. Plachetka
 John R. Plachetka, Pharm.D.
 President and Chief Executive Officer
 (principal executive officer)

Section 302 Certification

I, William L. Hodges, certify that:

1. I have reviewed this Form 10-Q of POZEN 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 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 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.

Date: May 3, 2007

/s/ William L. Hodges
 William L. Hodges
 Senior Vice President, Finance and Administration and
 Chief Financial Officer

**CEO CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with Form 10-Q of POZEN Inc. (the "Company"), as filed with the Securities and Exchange Commission (the "Report"), I, John R. Plachetka, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2007

/s/ John R. Plachetka
John R. Plachetka, Pharm.D.
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CFO CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

(18 U.S.C. SECTION 1350)

In connection with Form 10-Q of POZEN Inc. (the “Company”) , as filed with the Securities and Exchange Commission (the “Report”), I, William L. Hodges, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2007

/s/ William L. Hodges
William L. Hodges
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.