SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20649

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from _____ to_____

Commission File Number 1-10113

Acura Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

New York	**11-0853640**
(State or other Jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
616 N. North Court, Suite 120 **Palatine, Illinois** *(Address of Principal Executive Offices)*	**60067** *(Zip Code)*

847 705 7709
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

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

Large accelerated filer o	Accelerated filer ☑
Non-accelerated filer o	Smaller reporting company o

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

As of April 29, 2009 the registrant had 42,742,532 shares of common stock, $.01 par value, outstanding.

ACURA PHARMACEUTICALS, INC. AND SUBSIDIARY

INDEX

PART 1. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ACURA PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

UNAUDITED
(in thousands, except par values)

	March 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 37,013	$ 30,398
Short term investments	-	5,039
Collaboration revenue receivable	117	3,529
Prepaid expense and other current assets	231	431
Deferred income taxes	3,323	2,491
Total current assets	40,684	41,888
Non-current assets		
Property, plant and equipment, net	1,069	1,073
Total assets	$ 41,753	$ 42,961
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ -	$ 382
Accrued expenses	1,052	883
Deferred program fee revenue	3,368	4,632
Total liabilities	4,420	5,897
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common stock - $.01 par value; 650,000 shares authorized; 42,740 and 42,723 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	427	427
Additional paid-in capital	345,569	344,023
Accumulated deficit	(308,663)	(307,386)
Total stockholders' equity	37,333	37,064
Total liabilities and stockholders' equity	$ 41,753	$ 42,961

See accompanying notes to the consolidated financial statements.

ACURA PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2009	**2008**
Revenue		
Program fee revenue	$ 1,263	$ 13,707
Collaboration revenue	117	3,377
Total revenue	1,380	17,084
Operating expenses		
Research and development expenses	1,129	4,082
Marketing, general and administrative expenses	2,448	870
Total operating expenses	3,577	4,952
Operating (loss) income	(2,197)	12,132
Other income – interest, net	69	297
(Loss) income before income tax	(2,128)	12,429
Income tax (benefit) expense	(851)	4,980
Net (loss) income	$ (1,277)	$ 7,449
(Loss) earnings per share		
Basic	$ (0.03)	$ 0.16
Diluted	$ (0.03)	$ 0.15
Weighted average shares used in computation		
Basic	45,708	45,657
Diluted	45,708	49,439

See accompanying notes to the consolidated financial statements.

ACURA PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 30, 2009

UNAUDITED
(in thousands, except par values)

	Common Stock $0.01 Par Value - Shares	Common Stock $0.01 Par Value - Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2008	42,723	$ 427	$ 344,023	$ (307,386)	$ 37,064
Net loss	-	-	-	(1,277)	(1,277)
Stock based compensation	-	-	1,546	-	1,546
Exercise of warrants	17	-	-	-	-
Balance at March 31, 2009	42,740	$ 427	$ 345,569	$ (308,663)	$ 37,333

See accompanying notes to the consolidated financial statements.

ACURA PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31,

UNAUDITED
(in thousands, except supplemental disclosures)

	2009	2008
Cash flows from operating activities		
Net (loss) income	$ (1,277)	$ 7,449
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation and amortization	32	42
Deferred income taxes	(832)	4,980
Non-cash stock compensation expense	1,546	121
Impairment reserve against fixed assets	-	(51)
Changes in assets and liabilities		
Collaboration revenue receivable	3,413	(400)
Prepaid expenses and other current assets	198	232
Accounts payable	(382)	-
Accrued expenses	168	(24)
Deferred program fee revenue	(1,263)	(13,708)
Net cash provided by (used in) operating activities	1,603	(1,359)
Cash flows from investing activities		
Purchase of investments	-	(4,000)
Investment maturities	5,039	-
Capital expenditures	(27)	(7)
Net cash provided by (used in) investing activities	5,012	(4,007)
Increase (decrease) in cash and cash equivalents	6,615	(5,366)
Cash and cash equivalents at beginning of period	30,398	31,368
Cash and cash equivalents at end of period	$ 37,013	$ 26,002
Cash paid for income taxes	$ 74	$ -

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

Three Months Ended March 31, 2009

1. Warrants to purchase 38,000 shares of common stock were exercised at exercise price of $3.40 per share in a series of cashless exercise transactions resulting in the issuance of 17,000 shares of common stock.

Three Months Ended March 31, 2008

1. Fixed assets having a net book value of $51,000 were disposed under the impairment reserve.

See accompanying notes to the consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION

Acura Pharmaceuticals, Inc., a New York corporation, and its wholly-owned subsidiary Acura Pharmaceutical Technologies, Inc. (the "Company" or "We") is a specialty pharmaceutical company engaged in research, development and manufacture of product candidates providing abuse deterrent features and benefits utilizing our proprietary Aversion® Technology. Our portfolio of product candidates includes opioid analgesics intended to effectively relieve pain while simultaneously discouraging common methods of pharmaceutical product misuse and abuse including:

- intravenous injection of dissolved tablets or capsules;
- nasal snorting of crushed tablets or capsules; and
- intentional swallowing of excess quantities of tablets or capsules.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accrual adjustments, considered necessary to present fairly the financial position as of March 31, 2009 and results of operations and cash flows for the three month periods ended March 31, 2009 and 2008 have been made. The results of operations for the three month period ended March 31, 2009 are not necessarily indicative of results that may be expected for the full year ending December 31, 2009. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The year-end consolidated balance sheet was derived from the audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. Amounts presented have been rounded to the nearest thousand, where indicated, except per share data and par values.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

Derivative Instruments and Hedging Activities

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company's adoption of SFAS 161 at January 1, 2009 had no effect on the Company's consolidated financial statements as we had no derivative or hedging activities.

NOTE 3 – RESEARCH AND DEVELOPMENT

Research and development ("R&D") expenses include internal R&D activities, external contract research organization ("CRO") activities, and other activities. Internal R&D activity expenses include facility overhead, equipment and facility maintenance and repairs, depreciation, laboratory supplies, pre-clinical laboratory experiments, depreciation, salaries, benefits, and incentive compensation expenses. CRO activity expenses include preclinical laboratory experiments and clinical trial studies. Other activity expenses include clinical trial studies and regulatory consulting, and regulatory counsel. Internal R&D activities and other activity expenses are charged to operations as incurred. The Company makes payments to the CROs based on agreed upon terms and may include payments in advance of the study starting date. The Company reviews and accrues CRO expenses and clinical trial study expenses based on work performed and relies upon estimates of those costs applicable to the stage of completion of a study as provided by the CRO. Accrued CRO costs are subject to revisions as such trials progress to completion. Revisions are charged to expense in the period in which the facts that give rise to the revision become known. Advance payments are amortized to expense based on work performed. At March 31, 2009 we have less than $0.1 million of unfunded CRO obligations which is expected to be incurred during our second quarter 2009. We had unfunded CRO obligations of $1.0 million at December 31, 2008 which was incurred and charged to R&D expenses as the clinical studies progressed during the three month period ended March 31, 2009.

NOTE 4 – REVENUE RECOGNITION AND DEFERRED PROGRAM FEE REVENUE

We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"). We have also adopted the provisions of Emerging Issues Task Force, Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collection is reasonably assured.

In connection with our License, Development and Commercialization Agreement dated October 30, 2007 (the "King Agreement") with King Pharmaceuticals Research and Development, Inc. ("King"), we recognize program fee revenue, collaboration revenue and milestone revenue.

Program fee revenue is derived from amortized upfront payments, such as the $30.0 million upfront payment from King received in December 2007, and license fees upon the exercise of options to license a opioid analgesic product candidates under the King Agreement. We have assigned an equal portion of the King upfront payment to each of three product candidates identified in the King Agreement and recognize the upfront payment as program fee revenue ratably over our estimate of the development period for each identified product candidate. We recognized $1.3 million and $13.7 million of program fee revenue for the three months ended March 31, 2009 and 2008, respectively.

Collaboration revenue is derived from reimbursement of development expenses, which are invoiced quarterly in arrears, and are recognized when costs are incurred pursuant to the King Agreement. The ongoing research and development services being provided to King under the collaboration are priced at fair value based upon the reimbursement of expenses incurred pursuant to the collaboration with King. We recognized $0.1 million and $3.4 million of collaboration revenue during the three months ended March 31, 2009 and 2008, respectively.

Milestone revenue is contingent upon the achievement of certain pre-defined events in the development of Acurox® Tablets and other product candidates licensed to King under the King Agreement. Milestone payments from King are recognized as revenue upon achievement of the "at risk" milestone events, which represent the culmination of the earnings process related to that milestone. Milestone payments are triggered either by the results of our research and development efforts or by events external to us, such as regulatory approval to market a product. As such, the milestones are substantially at risk at the inception of the King Agreement, and the amounts of the payments assigned thereto are commensurate with the milestone achieved. In addition, upon the achievement of a milestone event, we have no future performance obligations related to that milestone payment. Each milestone payment is non-refundable and non-creditable when made. No milestone revenue was recognized for the three months ended March 31, 2009.

NOTE 5 – INCOME TAXES

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes." Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the differences are expected to reverse. Additionally, net operating loss and tax credit carryforwards are reported as deferred income tax assets. The realization of deferred income tax assets is dependent upon future earnings. SFAS 109 requires a valuation allowance against deferred income tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred income tax assets may not be realized. At both March 31, 2009 and December 31, 2008, the Company determined that it was more likely than not that a portion of the Company's net operating loss carryforwards may not be realized and accordingly a valuation allowance was provided. If in the future it is determined that additional amounts of our deferred income tax assets would likely be utilized, the valuation allowance would be reduced in the period in which such determination is made and an additional benefit from income taxes in such period would be recognized.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses are summarized as follows (in thousands):

	Mar 31, 2009	Dec 31, 2008
Payroll, bonus, taxes and benefits	$ 326	$ 77
Legal fees	43	35
Audit and tax professional services	59	89
Franchise taxes	232	144
Property taxes	40	39
State income taxes	-	94
Clinical, regulatory, trademarks, and patent services	107	217
Other fees and services	245	188
	$ 1,052	$ 883

NOTE 7 – SHARE-BASED COMPENSATION

The Company has share-based compensation plans including stock options and restricted stock units for its employees and directors. On January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") release FASB Statement No. 123 (revised 2004), "Share-Based Payment, ("FASB 123R")". FASB 123R requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. The Company uses the straight line method of attributing the value of stock-based compensation .The Company selected the Black-Scholes option pricing model for determining the estimated fair value for share-based awards. The use of the Black-Scholes model requires the use of assumptions including expected volatility, risk-free interest rate and expected dividends. The Company estimated the volatility factor of the market price of its stock as determined by reviewing its historical public market closing prices. The Company did not consider implied volatility because there are no options traded in its stock. The risk – free interest rate assumption is based on observed interest rates appropriate for the estimated term of the employee stock options and restricted stock units. The dividend yield assumption is based on the Company's history and expectation of dividend payouts on common stock. The expected term of the award represents the period that the employees and directors are expected to hold the award before exercise and issuance. Forfeitures are accounted for as they occur. Included in the three month periods ended March 31, 2009 and 2008 is $1.5 million and $0.1 million, respectively of share-based compensation expense.

Restricted Stock Unit Award Plan

The Company has a Restricted Stock Unit Award Plan (the "2005 RSU Plan") for its employees and non-employee directors. A Restricted Stock Unit ("RSU") represents the contingent obligation of the Company to deliver a share of its common stock to the holder of the RSU on a distribution date. RSUs for up to 3.5 million shares of common stock are authorized for issuance under the 2005 RSU Plan. Absent a change of control, one-fourth of vested shares of common stock underlying an RSU award will be distributed (after payment of $0.01 par value per share) on January 1 of each of 2011, 2012, 2013 and 2014. If a change in control occurs (whether prior to or after 2011), an acceleration of unvested shares will occur and all shares underlying the RSU award will be distributed at or about the time of the change in control and any unrecognized share-based compensation expense will be recognized.

At March 31, 2009 and December 31, 2008, 3.02 million and 3.00 million RSU awards were outstanding, respectively and 2.98 million and 2.95 million were fully vested, respectively. During the three months ended March 31, 2009, an award of 24,000 RSUs was granted with 1,000 common shares vesting per month from March 2009 through February 2011. The Black-Scholes value of the award was $0.14 million which will be recognized as share-based compensation expense over the vesting period of the award under a straight-line amortization method. Included in the three month period ended March 31, 2009 is $0.1 million of share-based compensation expense from all RSU awards. There was no share-based compensation expense from RSU awards during the three months ended March 31, 2008. As of March 31, 2009, the Company had $0.3 million of unrecognized share-based compensation expense from RSU awards which will be recognized over the remaining period of twenty-two months. The assumptions used in the Black-Scholes model to determine fair value for the 2009 RSU grant was:

	2009
Dividend yield	0.00%
Risk-free interest rate	1.50%
Volatility	107%
Forfeitures	0.00%
Expected life of option	3.4 years
Grant date fair value	$ 5.69

The weighted average fair value of all RSU grants is $3.51 per share of common stock underlying each RSU. As of March 31, 2009 and December 31, 2008, the aggregate intrinsic value of the RSU awards outstanding and vested was $19.1 million and $21.8 million, respectively.

Stock Option Plans

The Company has stock options outstanding under three stock option plans. The Company's 1995 and 1998 Stock Option Plans have expired but options granted under such plans remain outstanding under the terms of those plans. On April 30, 2008 the Company's shareholders approved a 2008 Stock Option Plan authorizing the granting of options to purchase up to 6.0 million shares of the Company's common stock.

Stock options to purchase 3.1 million and 3.0 million shares with a weighted-average exercise price of $4.89 and $6.95 were outstanding at March 31, 2009 and December 31, 2008, respectively, of which 2.4 million and 2.2 million options were vested at March 31, 2009 and December 31, 2008, respectively. During the three month periods ended March 31, 2009 and 2008, options to purchase 0.2 million and 0.1 million shares of common stock having a weighted average exercise price of $6.49 and $6.50, respectively, were granted. During the three month periods ended March 31, 2009 and 2008, stock options to purchase 17,000 shares and 44,000 shares expired. No stock options were exercised during either period. Included in the three month periods ending March 31, 2009 and 2008 are $1.4 million and $0.1 million, respectively of share-based compensation expense from stock option awards. The assumptions used in the Black-Scholes model to determine fair value for the 2009 stock option grants were:

	2009
Dividend yield	0.0%
Average risk-free interest rate used	2.77%
Average volatility used	124%
Forfeitures	0.0%
Expected life of option	10 years
Weighted average grant date fair value	$ 6.28

As of March 31, 2009 the Company had $6.7 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to stock option grants, which will be recognized over the remaining vesting period of twenty-two months. Total intrinsic value of stock options outstanding and exercisable at March 31, 2009 and December 31, 2008 was $8.8 million and $10.5 million, respectively.

NOTE 8 – COMMON STOCK WARRANTS

At March 31, 2009, the Company had outstanding common stock purchase warrants, exercisable for an aggregate of approximately 3.9 million shares of common stock, all of which contain cashless exercise features. During the three month period ended March 31, 2009, warrants to purchase 38,000 shares of common stock were exercised at $3.40 per share in a series of cashless exercise transactions resulting in the issuance of 17,000 shares of common stock. At March 31, 2009, outstanding stock purchase warrants to acquire 0.4 million, 0.1 million, and 3.4 million common shares will expire if unexercised during 2009, 2010 and years thereafter, respectively, and have a weighted average remaining term of 4.6 years. The exercise prices of these warrants range from $1.29 to $3.40 per share, with a weighted average exercise price of $3.17.

NOTE 9– EARNINGS (LOSS) PER SHARE

The computation of basic earnings (loss) per share of common stock is based upon the weighted average number of both common shares and vested RSUs outstanding during the period. A RSU represents the contingent obligation of the Company to deliver a share of its common stock to the holder of a vested RSU on a distribution date. The computation of diluted earnings (loss) per share is based on the same number of both common shares and vested RSUs used in the basic earning (loss) computation, but adjusted for the effect of other potentially dilutive securities. Excluded from the diluted earnings (loss) per share computation at March 31, 2009 are 7.1 million of potentially dilutive securities, as the effect of including them would be antidilutive. Accordingly, the loss per share is the same result for both basic and diluted computations.

	Three Months Ended March 31,	
(in thousands, except per share data)	2009	2008
Basic (loss) earnings per share		
Numerator:		
Net (loss) income allocable to common shareholder	$ (1,277)	$ 7,449
Denominator:		
Common shares (weighted)	42,736	42,707
Vested restricted stock units (weighted)	2,972	2,950
Weighted average shares used in computing basic (loss) earnings per share allocable to common shareholder	45,708	45,657
Basic (loss) earnings per share allocable to common shareholder	$ (0.03)	$ 0.16
Diluted (loss) earnings per share		
Denominator:		
Common shares (weighted)	42,736	42,707
Vested restricted stock units (weighted)	2,972	2,950
Stock options	-	1,448
Common stock warrants	-	2,334
Weighted average shares used in computing diluted (loss) earnings per share allocable to common shareholder	45,708	49,439
Diluted (loss) earnings per share allocable to common shareholder	$ (0.03)	$ 0.15
Excluded potentially dilutive securities:		
Common stock issuable (see #1 below):		
Stock options (vested and nonvested)	3,138	86
Nonvested restricted stock units	46	-
Common stock warrants	3,870	47
Total excluded dilutive common stock equivalents	7,054	133

(1) Number of shares issuable represents those securities which were either i) nonvested at quarter end or ii) were vested but antidilutive. The number of shares is based on maximum number of shares issuable on exercise or conversion of the related securities as of year end. Such amounts have not been adjusted for the treasury stock method or weighted average outstanding calculations as required if the securities were dilutive.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Employment Agreement

On March 23, 2009 we entered into an agreement with Garth Boehm, Ph.D., to be employed as our Vice President of Modified Release Dosage Form Development. Dr. Boehm is expected to commence employment with us in May 2009.

Financial Advisor Agreement

In connection with the Company's August 2007 Unit Offering, the Company is obligated to pay a fee to the Company's financial advisor upon each exercise of the warrants issued in the Unit Offering, in proportion to the number of warrants exercised. The maximum amount of such fee assuming 100% exercise of such warrants is $0.3 million. The Company has not reflected this obligation as a liability in its unaudited financial statements as the payment is contingent upon the timing and exercise of the warrants by each of the warrant holders. Such fee, if any, will be paid and charged against earnings as and if the warrants are exercised. No warrants have been exercised under the August 2007 Unit Offering.

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

This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes included elsewhere in this Report. Historical operating results are not necessarily indicative of results in future periods.

Forward Looking Statements

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The most significant of such factors include, but are not limited to, our ability and the ability of King Pharmaceuticals Research and Development, Inc. ("King") (to whom we have licensed our Aversion® Technology for certain opioid analgesic products in the United States, Canada and Mexico) and the ability other pharmaceutical companies, if any, to whom we may license our Aversion® Technology, to obtain necessary regulatory approvals and commercialize products utilizing Aversion® Technology, the ability to avoid infringement of patents, trademarks and other proprietary rights of third parties, and the ability to fulfill the U.S. Food and Drug Administration's ("FDA") requirements for approving our product candidates for commercial manufacturing and distribution in the United States, including, without limitation, the adequacy of the results of the laboratory and clinical studies completed to date and the results of other laboratory and clinical studies, to support FDA approval of our product candidates, the adequacy of the development program for our product candidates, changes in regulatory requirements, adverse safety findings relating to our product candidates, the risk that the FDA may not agree with our analysis of our clinical studies and may evaluate the results of these studies by different methods or conclude that the results of the studies are not statistically significant, clinically meaningful or that there were human errors in the conduct of the studies or the risk that further studies of our product candidates are not positive or otherwise do not support FDA approval or commercially viable product labeling, and the uncertainties inherent in scientific research, drug development, clinical trials and the regulatory approval process. Other important factors that may also affect future results include, but are not limited to: our ability to attract and retain skilled personnel; our ability to secure and protect our patents, trademarks and other proprietary rights; litigation or regulatory action that could require us to pay significant damages or change the way we conduct our business; our ability to compete successfully against current and future competitors; our dependence on third-party suppliers of raw materials; our ability to secure U.S. Drug Enforcement Administration ("DEA") quotas and source the active ingredients for our products in development; difficulties or delays in clinical trials for our product candidate or in the commercial manufacture and supply of our products; and other risks and uncertainties detailed in this Report and in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission. When used in this Report, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions identify forward-looking statements.

Company Overview

We are a specialty pharmaceutical company engaged in research, development and manufacture of product candidates providing abuse deterrent features and benefits utilizing our proprietary Aversion® Technology. Our innovative Aversion® Technology platform has been successfully utilized in developing multiple opioid analgesic products candidates. Development of Acurox® (oxycodone HCl/niacin) Tablets, our lead product candidate, is supported by numerous laboratory studies and statistically significant and clinically meaningful Phase II and Phase III study results. Additional product candidates in development are supported by laboratory and bioequivalence studies. Our portfolio of product candidates includes opioid analgesics intended to effectively relieve pain while simultaneously discouraging common methods of pharmaceutical product misuse and abuse including:

- intravenous injection of dissolved tablets or capsules;
- nasal snorting of crushed tablets or capsules; and
- intentional swallowing of excess quantities of tablets or capsules.

Acurox®, our lead product candidate, is an orally administered immediate release tablet containing oxycodone HCl as its sole active analgesic ingredient. On December 30, 2008, we submitted a 505(b)(2) New Drug Application ("NDA") for Acurox® Tablets to the FDA including a request for Priority review. On March 3, 2009 we announced such NDA was accepted for filing by the FDA with a Priority review classification. The user fee goal date for the Acurox® Tablets NDA under the Prescription Drug User Fee Act (PDUFA) is June 30, 2009. The FDA's timelines described in the PDUFA guidance are flexible and subject to change based on workload and other potential review issues. In addition to Acurox®, we have numerous Aversion® Technology opioid analgesic product candidates in various stages of development containing the active analgesic ingredients found in widely prescribed and frequently abused products. All of our product candidates utilize Aversion® Technology and are covered by issued US patents, which in combination with our anticipated product labeling and drug product listing strategies are anticipated to provide our opioid products with protection from generic competition in the U.S. through the expiration of our patents in 2025.

King Agreement

We have entered into a license agreement (the "King Agreement") dated October 30, 2007 with King Pharmaceuticals Research and Development, Inc. ("King"), a wholly-owned subsidiary of King Pharmaceuticals, Inc., to develop and commercialize in the United States, Canada and Mexico (the "King Territory") Acurox®, Acuracet® (oxycodone HCI/niacin/APAP) Tablets, Vycavert™ (hydrocodone bitartrate/niacin/APAP) Tablets and a fourth undisclosed opioid analgesic product candidate utilizing our proprietary Aversion® Technology. King has an option to license in the King Territory all future opioid analgesic products developed utilizing Aversion® Technology. The King Agreement provides that we or King may develop additional opioid analgesic product candidates utilizing our Aversion® Technology and, if King exercises its option to license such additional product candidates, they will be subject to the milestone and royalty payments and other terms of the King Agreement.

We are responsible, using commercially reasonable efforts, for all Acurox® Tablet development activities through FDA approval of a 505(b)(2) NDA, the expenses for which are reimbursed by King. After NDA approval King will be responsible for manufacturing and commercializing Acurox® Tablets in the U.S. With respect to all other products licensed by King pursuant to the King Agreement in all King Territories, King will be responsible, at its own expense, for development, regulatory, manufacturing and commercialization activities. Subject to the King Agreement, King will have final decision making authority with respect to all development and commercialization activities for all licensed products.

As of March 31, 2009, we had received aggregate payments of $55.4 million from King, consisting of a $30.0 million non-refundable upfront cash payment, $14.4 million in reimbursed research and development expenses relating to Acurox® Tablets, $6.0 million in fees relating to King's exercise of its option to license an undisclosed opioid analgesic tablet product and Vycavert™ Tablets, and a $5.0 million milestone fee for successful achievement of the primary endpoints for our pivotal Phase III clinical study for Acurox® Tablets. The King Agreement provides for King to pay us: (a) a $3.0 million option exercise fee for each future opioid product candidate King licenses, (b) up to $23 million in regulatory milestone payments for each King licensed product candidate, including Acurox® Tablets, across specific countries in the King Territory, and (c) a one-time $50 million sales milestone payment upon the first attainment of an aggregate of $750 million in net sales of all of our licensed products combined in all King Territories. In addition, for sales occurring following the one year anniversary of the first commercial sale of the first licensed product sold, King will pay us a royalty at one of 6 rates ranging from 5% to 25% based on the level of combined annual net sales for all products licensed by us to King in all King Territories, with the highest applicable royalty rate applied to such combined annual sales. No minimum annual fees are payable by either party under the King Agreement.

The foregoing description of the King Agreement contains forward-looking statements about Acurox® Tablets, and other product candidates pursuant to the King Agreement. As with any pharmaceutical products under development or proposed to be developed, substantial risks and uncertainties exist in development, regulatory review and commercialization process. There can be no assurance that any product developed, in whole or in part, pursuant to the King Agreement will receive regulatory approval or prove to be commercially successful. Accordingly, investors in the Company should recognize that there is no assurance that the Company will receive the milestone payments or royalty revenues described in the King Agreement or even if such milestones are achieved, that the related products will be successfully commercialized and that any royalty revenues payable to us by King will materialize.

Patents and Patent Applications

In April 2007, the United States Patent and Trademark Office (“USPTO”), issued to us a patent titled “Methods and Compositions for Deterring Abuse of Opioid Containing Dosage Forms” (the “920 Patent”). The 54 allowed claims in the 920 Patent encompass certain pharmaceutical compositions intended to deter the most common methods of prescription opioid analgesic product misuse and abuse. These patented pharmaceutical compositions include specific opioid analgesics such as oxycodone HCl and hydrocodone bitartrate among others.

In March 2009, the USPTO issued to us a patent (the “726 Patent”) with 20 allowed claims. The 726 Patent encompasses a wider range of abuse deterrence compositions than our 920 Patent. The USPTO previously issued to us a Notice of Allowance for a 21st claim in our 726 Patent application. Upon consideration of a potential interference proceeding between the 726 Patent application and a third party patent application, we filed with the USPTO a Request for Continued Examination of the 726 Patent application and cancelled from such application the claim similar to the claim included in the third party patent application.

In January 2009, the USPTO issued to us a patent (the “402 Patent”) with 18 allowed claims. The 402 Patent encompasses certain combinations of *kappa* and *mu* opioid receptor agonists and other ingredients intended to deter opioid analgesic product misuse and abuse.

In addition to our three issued U.S. patents, we also have five U.S. non-provisional pending patent applications and multiple international patent applications filed relating to compositions containing abuseable active pharmaceutical ingredients. Except for those rights conferred in the King Agreement, we have retained all intellectual property rights to our Aversion® Technology and related product candidates.

Company’s Present Financial Condition

At April 29, 2009, we had cash, cash equivalents and short term investments of approximately $36.5 million. We estimate that our current cash reserves will be sufficient to fund operations and the development of Aversion® Technology and related product candidates through at least the next 12 months.

In December, 2007, we and King Research and Development Inc., ("King") closed a License, Development and Commercialization Agreement (the “King Agreement”) to develop and commercialize certain opioid analgesic products utilizing our proprietary Aversion® Technology in the United States, Canada and Mexico. During the three months ended March 31, 2009, we recognized revenues of $1.3 million of the $30.0 million upfront cash payment received from King in December 2007 and recognized $0.1 million of revenues for reimbursement by King of our Acurox® Tablet development expenses. We have yet to generate any royalty revenues from product sales. We expect to rely on our current cash resources and additional payments that may be made under the King Agreement and under similar license agreements with other pharmaceutical company partners, of which there can be no assurance, in funding our continued operations. Our cash requirements for operating activities may increase in the future as we continue to conduct pre-clinical studies and clinical trials for our product candidates, maintain, defend, if necessary and expand the scope of our intellectual property, hire additional personnel, or invest in other areas.

Results of Operations for the Three Month Period Ended March 31, 2009 and 2008

($ in thousands):	March 31, 2009	2008	Change Dollars	%
Revenue				
Program fee revenue	$ 1,263	$ 13,707	$ (12,444)	(91) %
Collaboration revenue	117	3,377	(3,260)	(97)
Total revenue	1,380	17,084	(15,704)	(92)
Operating expenses				
Research and development expenses	1,129	4,082	(2,953)	(72)
Marketing, general and administrative expenses	2,448	870	1,578	181
Total operating expenses	3,577	4,952	(1,375)	-
Operating (loss) income	(2,197)	12,132	(14,329)	(118)
Other income - interest, net	69	297	(228)	(77)
(Loss) income before income tax	(2,128)	12,429	(14,557)	(117)
Income tax (benefit) expense	(851)	4,980	5,831	(117)
Net (loss) income	$ (1,277)	$ 7,449	$ (8,726)	(117) %

Revenue

King paid us a $30.0 million upfront fee in connection with the closing of the King Agreement in December 2007. Revenue recognized in the three month periods ended March 31, 2009 and 2008 from amortization of this upfront fee was $1.3 million and $13.7 million, respectively. We have assigned a portion of the program fee revenue to each of three product candidates identified under the King Agreement and expect to recognize the remainder of the program fee revenue ratably over our estimate of the development period for each of these product candidates identified in the King Agreement. We currently estimate the development period to extend through November, 2009.

Collaboration revenue recognized in the three month periods ended March 31, 2009 and 2008 was $0.1 million and $3.4 million for billed reimbursement of our Acurox® Tablet development expenses incurred pursuant to the King Agreement. We invoice King in arrears on a calendar quarter basis for our reimbursable development expenses under the King Agreement. We expect the amount and timing of collaboration revenue to fluctuate in relation to the amount and timing of the underlying research and development expenses.

Operating Expenses

Research and development expense during the three month periods ended March 31, 2009 and 2008 were for product candidates utilizing our Aversion® Technology, including costs of preclinical, clinical trials, clinical supplies and related formulation and design costs, salaries and other personnel related expenses, and facility costs. Included in the 2009 result are non-cash stock-based compensation charges of $0.3 million. There was a nominal amount of stock-based compensation charges in the 2008 result. Excluding the stock-based compensation expense, there is a $3.3 million decrease in development expenses primarily attributable to clinical study costs for Acurox® Tablets.

Marketing expenses during the three month periods ended March 31, 2009 and 2008 consisted of Aversion® Technology primary market data research studies. Our general and administrative expenses primarily consisted of legal, audit and other professional fees, corporate insurance, and payroll. Included in the 2009 and 2008 results are non-cash stock-based compensation charges of $1.3 million and $0.1 million, respectively. Excluding the stock-based compensation expense, there is a $0.4 million increase in general, administrative and marketing expenses primarily in areas such as $0.1 million for patent legal services, $0.1 million for state franchise taxes and $0.2 million for incentive compensation accruals.

Other Income (Expense)

During the three month periods ended March 31, 2009 and 2008, the cash was invested in accordance with the investment policy approved by our Board of Directors resulting in interest income of $0.1 million and $0.3 million, respectively.

Net Income (Loss)

The Company records its tax provision using a 40% effective tax rate. The net loss for the three months ended March 31, 2009 includes a provision for an income tax benefit of $0.9 million. The Company's net income for the three month period ended March 31, 2008 includes a tax provision of $5.0 million.

Liquidity and Capital Resources

At March 31, 2009, the Company had unrestricted cash and cash equivalents of $37.0 million compared to $35.4 million in cash, cash equivalents and short-term investments at December 31, 2008. The Company had working capital of $36.3 million at March 31, 2009 compared to $36.0 million at December 31, 2008. The increase in our cash position of $1.6 million is primarily due to the collection of our collaboration revenue receivable during the three month period ending March 31, 2009. Cash flows generated in operating activities were $1.6 million for the three month period ended March 31, 2009 primarily representing the collection of the collaboration revenue receivable offset by the period's net loss adjusted for certain non cash items such as deferred program fee revenue, deferred income taxes, and charges for stock compensation. Cash flow used in operating activities for the three month period ended March 31, 2008 primarily represented our recognition of deferred program fee revenue offset by the period's net income and change in deferred income taxes. The cash flow from investing activities resulted from the maturity of our short term investments during the 2009 period and the purchase of short term investments for the 2008 period.

At April 29, 2009, the Company had cash, cash equivalents, and short-term investments of approximately $36.5 million. The Company estimates that such cash reserves will be sufficient to fund the development of Aversion® Technology product candidates and related operating expenses at least through the next 12 months.

The following table presents our expected cash payments on contractual obligations outstanding as of March 31, 2009:

	Payments due by period				
(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$ 31	$ 23	$ 8	—	—
Clinical studies	37	37	—	—	—
Employment agreements	855	735	120	—	—
Total	$ 923	$ 795	$ 128	—	—

Critical Accounting Policies

Note A of the Notes to Consolidated Financial Statements, in the Company's 2008 Annual Report on Form 10-K, includes a summary of the Company's significant accounting policies and methods used in the preparation of the financial statements. The application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Company does not believe there is a consequential likelihood that materially different amounts would be reported under different conditions or using different assumptions. The Company's critical accounting policies described in the 2008 Annual Report are also applicable to 2009.

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

(a) *Disclosure Controls and Procedures*. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined on Rules 13a – 13(e) and 15(d) – 15(e) under the Exchange Act) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis in the Company's periodic reports filed with the SEC. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective to provide reasonable assurance. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise require to be set forth in the Company's periodic reports.

(b) *Changes in Internal Controls over Financial Reporting*. There were no changes in our internal controls over financial reporting during the first fiscal quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II

Item 1A. ***Risk Factors Relating To The Company***

In addition to the Risk Factors set forth in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, shareholders and prospective investors in the Company's common stock should carefully consider the following risk factors (which update the risk factors having similar caption descriptions in our 2008 Form 10-K).

If King is not successful in commercializing Acurox® Tablets and other licensed product candidates incorporating the Aversion® Technology our revenues and our business will suffer.

Pursuant to our License, Development and Commercialization Agreement for certain of our opioid analgesic product candidates, King is responsible for manufacturing, marketing, pricing, promoting, selling, and distributing such product candidates in the US., Canada and Mexico. If such agreement is terminated in accordance with its terms, including due to a party's failure to perform its obligations or responsibilities under the agreement, then we would need to commercialize the products ourselves for which we currently have no infrastructure or alternatively enter into a new agreement with another pharmaceutical company, of which no assurance can be given. In this event our revenues and/or royalties for these products could be adversely impacted.

King's manufacturing facility is currently the sole commercial source of supply for Acurox® and our other product candidates licensed to King. If King's manufacturing facility fails to obtain sufficient DEA quotas for the opioid active ingredients contained in such product candidates, fails to source adequate quantities of active and inactive ingredients, fails to comply with regulatory requirements, or otherwise experiences disruptions in commercial supply of our product candidates, product revenue and our royalties could be adversely impacted.

King has a diversified product line for which Acurox® and our other product candidates licensed to King will vie for King's promotional, marketing, and selling resources. If King fails to commit sufficient promotional, marketing and selling resources to our products, product revenue and our royalties could be adversely impacted.

The market for our opioid product candidates is highly competitive with many marketed non abuse deterrent brand and generic products and other abuse deterrent product candidates in development. If King prices our product candidates inappropriately, fails to position our products properly, targets inappropriate physician specialties, or otherwise does not provide sufficient promotional support, product revenue and our royalties could be adversely impacted.

We or our licensees may not obtain required FDA approval; the FDA approval process is time-consuming and expensive.

The development, testing, manufacturing, marketing and sale of pharmaceutical products are subject to extensive federal, state and local regulation in the United States and other countries. Satisfaction of all regulatory requirements typically takes years, is dependent upon the type, complexity and novelty of the product candidate, and requires the expenditure of substantial resources for research, development and testing. Substantially all of our operations are subject to compliance with FDA regulations. Failure to adhere to applicable FDA regulations by us or our licensees would have a material adverse effect on our operations and financial condition. In addition, in the event we are successful in developing product candidates for distribution and sale in other countries, we would become subject to regulation in such countries. Such foreign regulations and product approval requirements are expected to be time consuming and expensive.

We or our licensees may encounter delays or rejections during any stage of the regulatory review and approval process based upon the failure of clinical or laboratory data to demonstrate compliance with, or upon the failure of the product candidates to meet, the FDA's requirements for safety, efficacy and quality; and those requirements may become more stringent due to changes in regulatory agency policy or the adoption of new regulations. After submission of an NDA, or a 505(b)(2) NDA, the FDA may refuse to file the application, deny approval of the application, require additional testing or data and/or require post-marketing testing and surveillance to monitor the safety or efficacy of a product. The FDA commonly takes more than a year to grant final approval for an NDA, or 505(b)(2) NDA. The Prescription Drug User Fee Act ("PDUFA") sets time standards for FDA's review of NDA's. The FDA's timelines described in the PDUFA guidance are flexible and subject to change based on workload and other potential review issues and may delay the FDA's review of an NDA. Further, the terms of approval of any NDA, including the product labeling, may be more restrictive than we or our licensees desire and could affect the marketability of products utilizing our Aversion® Technology.

Even if we comply with all the FDA regulatory requirements, we or our licensees may never obtain regulatory approval for any of our product candidates. If we or our licensees fail to obtain regulatory approval for any of our product candidates, we will have fewer commercialized products and correspondingly lower revenues. Even if regulatory approval of our products is received, such approval may involve limitations on the indicated uses or promotional claims we or our licensees may make for our products, or otherwise not permit labeling that sufficiently differentiates our product candidates from competitive products with comparable therapeutic profiles but without abuse deterrent features. Such events would have a material adverse effect on our operations and financial condition.

The FDA also has the authority to revoke or suspend approvals of previously approved products for cause, to debar companies and individuals from participating in the drug-approval process, to request recalls of allegedly violative products, to seize allegedly violative products, to obtain injunctions to close manufacturing plants allegedly not operating in conformity with current Good Manufacturing Practices ("cGMP") and to stop shipments of allegedly violative products. In the event the FDA takes any such action relating to our products (if any are approved by FDA), such actions would have a material adverse effect on our operations and financial condition.

Item 6. ***Exhibits***

The exhibits required to be filed as part of this Report are listed below.

10.1	Employment Agreement dated as of March 23, 2009 between Acura Pharmaceuticals, Inc. and Garth Boehm.
31.1	Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.2	Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
32.1	Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 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.

April 29, 2009

ACURA PHARMACEUTICALS, INC.

/s/ Andrew D. Reddick

Andrew D. Reddick
President & Chief Executive Officer

/s/ Peter A. Clemens

Peter A. Clemens
Senior VP & Chief Financial Officer

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "**Agreement**") made as of the 23th day of March, 2009 by and between **ACURA PHARMACEUTICALS, INC.**, a New York corporation (the "**Company**"), with an administrative office at 616 N. North Court, Suite 120, Palatine, IL 60067 and **GARTH BOEHM, Ph.D.**, residing at 530 Mountain Avenue, Westfield, NJ 07090 (the "**Employee**").

WITNESSETH

WHEREAS, the Company desires to employ the Employee to engage in such activities and to render such services as are required under the terms and conditions hereof and the Company's Board of Directors has authorized and approved the execution of this Agreement; and

WHEREAS, the Employee desires to be employed by the Company under the terms and conditions hereinafter provided.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, the parties agree as follows:

1. Employment, Duties, Responsibilities, Office Location, Travel, and Acceptance.

1.1 Duties and Responsibilities. Commencing on the Commencement Date (as defined below) the Company shall employ the Employee for the Term (as herein defined), to render exclusive and full-time paid services (as herein defined) as the Company's Vice President of Modified Release Dosage Form Development. The Employee's duties and responsibilities shall include (i) in conjunction with Company's outside patent counsel, evaluating the Company's issued patents and filed patent applications; (ii) developing, authoring, and/or co-authoring new patent applications intended to encompass and protect commercially viable pharmaceutical products with abuse deterrent features and benefits; (iii) reviewing draft patent applications authored by other Company staff; (iv) in conjunction with Company patent counsel, evaluating competitive patents and published patent applications for freedom to operate and other relevant considerations; (v) evaluating technical aspects of competitive and potentially competitive products in development with abuse deterrent features and benefits; and (vi) collaborating with the Company's technical staff regarding development of new modified-release oral solid dosage forms with abuse deterrent features using previously approved active and inactive pharmaceutical ingredients. In connection therewith, commencing on the Commencement Date the Employee shall perform the duties and responsibilities set forth here-in and others as may be further reasonably and customarily requested by the Chief Executive Officer (**CEO**) (collectively, the "**Services**"), to whom the Employee shall report and to use his commercially reasonable best efforts, skill and abilities to promote the interests of the Company and its subsidiaries. For purposes hereof, **"Commencement Date"** shall mean May 4th, 2009, unless the Company and the Employee expressly agree in writing to another date, in which case such other date shall be deemed the Commencement Date.

1.2 Office Location and Travel. The Employee shall perform the Services from his home office. In addition, the Employee may be required to travel from time-to-time to the Company's Culver, IN research, development, and manufacturing facility, and Palatine, IL administrative office, offices of the Company's existing and potentially new legal counsel currently located in Newark, NJ (general and SEC counsel), Philadelphia, PA (patent counsel), Washington, DC (regulatory counsel), existing and potentially new licensees (currently including King Pharmaceuticals, Inc.) Bridgewater, NJ, RTP, NC, and Bristol, TN, existing and potentially new contract research organizations, contract manufacturing organizations, and contract laboratory service providers, Company board of directors and staff meetings and such other locations as shall be required as the CEO shall determine to be in the best business interests of the Company.

1.3 Acceptance. The Employee hereby accepts such employment and agrees to render the Services described in Section 1 hereof.

2. Term of Employment. The term of the Employee's employment under this Agreement shall commence on the Commencement Date of this Agreement and shall expire twenty-four months thereafter (the "**Initial Term**"), unless sooner terminated pursuant to Section 6 of this Agreement; provided, however, that the term of the Employee's employment hereunder shall automatically be extended for successive one (1) year periods (each, a "**Renewal Period**" and together with the Initial Term, the "**Term**") unless either the Company or the Employee provides written notice of non-renewal of the Employee's employment with the Company ninety (90) days prior to the expiration of the Initial Term or any Renewal Period.

3. Compensation. In consideration of the services to be rendered by the Employee pursuant to this Agreement, the Employee shall receive from the Company the following compensation:

(a) Base Salary. The Company shall pay the Employee an aggregate base salary at the initial annual rate of Two Hundred Sixty-Five Thousand Dollars ($265,000) (the "**Base Salary**"), commencing on the Commencement Date and payable in equal weekly installments, or other periods at the Company's discretion, less such deductions or amounts to be withheld as shall be required by applicable laws and regulations. The Employee's Base Salary shall be reviewed at least annually and be subject to increase by the Board of Directors of the Company in its sole and absolute discretion.

(b) Annual Bonus. The Employee will be eligible to receive from the Company an annual bonus (the "**Bonus**") in the amount of up to thirty-five percent (35%) of the Employee's then current annual Base Salary during such calendar year (with eligibility prorated for calendar year 2009 from the Commencement Date to December 31, 2009). The Bonus will be based upon the relative achievement of such targets, conditions or parameters (the "**Bonus Criteria**") as will be agreed upon by the Employee and the Board of Directors or the Compensation Committee of the Board of Directors of the Company. The Bonus shall be paid at the same time as the bonuses are paid to other executive officers of the Company, but in any event within seventy five (75) days following the end of each calendar year for which the Employee is awarded a Bonus which has been approved and authorized by the Board of Directors to be paid. Except as provided in Section 7, Employee must be actively employed by the Company on the date that the Bonus is paid to be eligible for such Bonus.

(c) Business Expenses. The Company shall pay or reimburse the Employee for all reasonable expenses which are in accordance with the Company's expense policy in force from time to time and which are actually incurred or paid by the Employee during the Term in the performance of his Services under this Agreement, upon presentation of expense statements or vouchers or such other supporting information as the Company may reasonably require. Such expenses shall include, but not be limited to, business travel, related meals and lodging for overnight stays, home office supplies, cell phone and home telephone line, internet service provider, laptop computer and associated software, and home printer and associated supplies.

4. Additional Benefits.

(a) Insurance and Retirement Plans. The Employee shall be entitled to medical, dental, disability, and life insurance and retirement plan benefits for which he may be eligible as adopted from time to time by the Company's Board of Directors in its sole and absolute discretion for the benefit of employees of the Company.

(b) Stock Options. Upon the Commencement Date, the Employee shall be granted stock options to purchase 96,000 shares of the Company's common stock (the "**Commencement Date Option**") at an exercise price per share equal to the last sale price as reported by the NASDAQ Capital Market of the Company's common stock on the trading day immediately preceding the Commencement Date. The Commencement Date Option shall vest and be exercisable at the rate of 4,000 shares on the last day of each calendar month during the Initial Term. The Commencement Date Option shall be evidenced by the Stock Option Agreement substantially in the form of **Exhibit A** attached hereto and governed by the Company's 2008 Stock Option Plan. The Employee will also be eligible in the future to receive stock option grants based on performance or on achievement milestones as determined by the Board of Directors or the Compensation Committee. The Commencement Date Option and any other stock option granted to the Employee by the Company during the Term are referred to herein collectively as the "**Options**".

(c) Restricted Stock Units. Upon the Commencement Date, the Company shall grant to the Employee a Restricted Stock Unit Award for 24,000 shares of the Company's common stock (the "**Commencement Date Restricted Stock Units**"). The Commencement Date Restricted Stock Units shall vest at the rate of 1,000 restricted stock units on the last day of each calendar month during the Initial Term. The Commencement Date Restricted Stock Units shall be evidenced by the Restricted Stock Unit Award Agreement substantially in the form of **Exhibit B** attached hereto and governed by the Company's 2005 Restricted Stock Unit Award Plan. The Commencement Date Restricted Stock Units and any other restricted stock units granted to the Employee by the Company during the Term are referred to herein collectively as "**Restricted Stock Units**".

5. Vacation. The Employee shall be entitled to four weeks of vacation during each calendar year of the Term (pro-rated for calendar year 2009) to be taken at a time or times mutually agreed upon by the Employee and the Company; provided, however, that not more than one week of accrued but unused vacation period may be carried over to the calendar year immediately following the calendar year in which such vacation was to be taken, unless otherwise required by applicable law. The Company acknowledges the Employee will be travelling to South East Asia for two (2) weeks in June 2009.

6. Termination.

6.1 Death. If during the Term the Employee shall die, the Employee's employment under this Agreement shall terminate as of the date of the Employee's death. Upon such termination under this Section 6.1 the Company shall pay to or for the benefit of the Employee to such person or persons as the Employee shall designate by notice to the Company from time to time or, in the absence of such designation, the Employee's spouse (the "**Employee's Designees**"), in a lump sum in cash within thirty (30) days from the date of the Employee's death the accrued but unpaid portion of the Base Salary payable hereunder through the date of death, and any accrued and unpaid vacation. Except as set forth in any Stock Option Agreements and Restricted Stock Unit Award Agreements, the Company shall not have any further obligations to provide the Employee with any further payments, benefits, or remuneration upon a termination under this Section 6.1.

6.2 Disability. In the event of the Employee's "mental or physical disability" (as defined herein) which continues for (i) a period of longer than sixty (60) consecutive days, (ii) such periods aggregating one hundred twenty (120) days during any 365 consecutive days, or (iii) such additional period as may be required by law, such that the Employee is unable to substantively perform the essential functions of his position for said periods even with reasonable accommodation if necessary, the determination of which shall be confirmed by the Board of Directors in the manner hereinafter provided, this Agreement shall terminate upon thirty (30) days' prior written notice to the Employee from the Company (the "**Disability Termination Date**"). The Company shall continue to pay to the Employee during the period of his mental or physical disability the Base Salary provided in Section 3 of this Agreement and provide the benefits described herein; provided, however, that the Base Salary shall be reduced by any disability insurance payments paid to the Employee by a policy paid for by the Company. On the Disability Termination Date, (a) the Employee's Base Salary shall cease, and (b) the Company shall pay to the Employee, in a lump sum in cash, any accrued and unpaid vacation. As used herein, the term "**mentally or physically disabled**" shall mean any mental or physical condition that precludes the Employee from being able to perform the essential functions of his duties and responsibilities even with reasonable accommodation if necessary. The Company may require the Employee to undergo an independent medical examination by a reputable health care professional of the Company's selection as part of its determination of whether the Employee is mentally or physically disabled. The Employee hereby consents to, and agrees to make himself available for, such examination. Except as set forth in any Stock Option Agreements and Restricted Stock Unit Award Agreements, the Company shall not have any further obligations to provide the Employee with any further payments, benefits, or remuneration upon a termination under this Section 6.2.

6.3 Termination for Cause. The Company may at any time during the Term, by written notice, and after affording the Employee the opportunity to be heard in person by the Board of Directors, terminate this Agreement and discharge the Employee for "Cause", whereupon the Company's obligation to pay compensation or any other amounts payable hereunder to or for the benefit of the Employee shall terminate on the date of such discharge except for accrued and unpaid Base Salary and expenses to the date of discharge. For purposes of this Agreement, the term "Cause" shall mean: (i) any act of the Employee's constituting willful misconduct which is materially detrimental to the Company's best interests, including misappropriation of, or intentional damage to, the funds, property, business or reputation of the Company; (ii) conviction of a felony or of a crime involving moral turpitude or conviction of any crime involving dishonesty or fraud;; (iii) material failure of the Employee to perform his duties in accordance with this Agreement after written notice to the Employee by the Board of Directors specifying such failure and giving the Employee fourteen (14) days to correct the defects in performance; or (iv) breach by the Employee of any material provision hereof which, if capable of remedy, remains unremedied for more than fourteen (14) days after written notice. In the event the Employee is terminated by the Company for Cause or if the Employee resigns other than for Good Reason (as defined in Section 6.5), the Employee shall be entitled to exercise the vested portion of the Options within forty (40) days of such termination or resignation. At the expiration of such forty (40) day exercise period, the unexercised Options shall terminate. Except as set forth in any Stock Option Agreements and Restricted Stock Unit Award Agreements, the Company shall not have any further obligations to provide the Employee with any further payments, benefits, or remuneration upon a termination under this Section 6.3.

6.4 Termination Without Cause. The Company may terminate the Employee's employment with the Company at any time "without Cause", upon thirty (30) days' written notice to the Employee. A termination "**without Cause**" shall mean a termination of the Employee's employment other than due to death, disability or for Cause as provided in Sections 6.1, 6.2, and 6.3, respectively.

6.5 Termination by the Employee for Good Reason. The Employee may terminate his employment for "**Good Reason**", upon thirty (30) days' written notice to Company. "**Good Reason**" shall mean a termination of employment by the Employee following, without the Employee's express prior written consent: (i) any material diminution in the Employee's duties, status, offices, reporting requirements, or job title, except in connection with termination of the Employee's employment for Cause as provided in Section 6.3 or death or disability as provided in Sections 6.1 and 6.2 provided that the Employee has given the Company written notice of the alleged basis for Good Reason and such basis remains uncured after twenty (20) day following the Company's receipt of the notice; (ii) the failure of the Company timely to pay the Employee's salary, bonus or benefits due the Employee or any material breach by the Company of this Agreement, provided that the Employee has given the Company written notice of the alleged basis for Good Reason and such basis remains uncured after twenty (20) day following the Company's receipt of the notice; (iii) any change in the Company's pay plan or employment agreement with the Employee that results in a material diminution of the Employee's annual Base Salary or eligible Bonus amounts provided that the Employee has given the Company written notice of the alleged basis for Good Reason and such basis remains uncured after twenty (20) day following the Company's receipt of the notice; (iv) notice by the Company to not renew this Agreement pursuant to Section 2, or (v) the failure of the Company to obtain an agreement from any successor to the Company to assume and agree to perform this Agreement. Employee must provide notice of termination for Good Reason within thirty (30) days of the date Employee becomes aware of grounds for such termination.

6.6 Payment Upon Termination Without Cause or for Good Reason.

(a) Cash Payments and Severance. In the event of a termination without Cause or for Good Reason the Company shall pay the Employee, subject to applicable withholdings and deductions:

(i) each of the following amounts (x) the Employee's accrued and unpaid Base Salary through and including the date of termination; (y) the Employee's then accrued and unused vacation through and including the date of termination; and; (z) the Employee's then accrued and unpaid Bonus for such year, calculated by pro-rating the annual Bonus, which would have been payable to the Employee but for his termination and assuming full achievement of the Bonus Criteria for such year, based on the number of days that the Employee remained in the employ of the Company during the year for which the Bonus is due. The payments provided in subsections (x), (y) and (z) shall be paid in a single lump sum in cash within thirty (30) days after the date of termination; and

(ii) one (1) year of the Employee's Base Salary in effect immediately prior to the date of termination ("**Severance Pay**"). The amount of such Severance Pay together with the payment under 6.6(a)(i)(z) that does not exceed the Applicable Limit, shall be paid in equal monthly installments over the Severance Period (as defined in Section 6.6(b)). To the extent the Severance Pay together with the payment under Section 6.6(a)(i)(z) exceeds the Applicable Limit, (A) one-half of the amount exceeding the Applicable Limit shall be paid six months and one day after the date of termination, and (B) one-half of the amount exceeding the Applicable Limit shall be paid in six equal monthly installments commencing with the seventh month after the date of termination. The Applicable Limit is the amount which may not be exceeded as specified in Treasury Regulation 1-.409A-1(b)(iii)(A) (generally the lesser of $490,000 (for 2009) and two times Employee's compensation).

(b) Insurance Benefits. In the event of a termination without Cause or for Good Reason, for twelve (12) months from the date of such termination (the "**Severance Period**"), the Employee will, at the Employee's option, (i) continue to receive all insurance benefits to which he was entitled pursuant to Section 4(a) of this Agreement as of the date of termination including continued medical, dental, disability, and life insurance coverage on terms substantially as in effect on the date of termination, subject to the payment by the Employee of all applicable employee contributions, or (ii) receive a payment in cash following his termination without Cause or for Good Reason representing the value of such continued benefits, plus any income tax payable by the Employee on such value. The amount provided in subsection (ii) shall be paid (A) in a single lump sum payment within thirty (30) days of the date of termination if such termination is by the Company without Cause, and (B) in a single lump sum payment six months and one day following the date of termination if such termination is by the Employee for Good Reason. If the Employee elects option (i) above and for any reason at any time the Company is unable to treat the Employee as being or having been an employee of the Company under any benefits plan in which he is entitled to participate and as a result thereof the Employee receives reduced benefits under such plan during the period that the Employee is continuing to receive payments pursuant to this Section 6.6(b), then the Company shall provide the Employee with such benefits by direct payment or, at the Company's option, by making available equivalent benefits from other sources. During the Severance Period, the Employee shall not be entitled to receive salary and/or benefits except as provided herein and shall not be entitled to participate in any employee benefit plan of, or receive any other benefit from, the Company that is introduced after the date of termination, except that an appropriate adjustment shall be made if such new employee benefit or employee benefit plan is a replacement for or amendment to an employee benefit or employee benefit plan in effect as of the date of termination.

(c) Stock Options. In the event of a termination without Cause or for Good Reason, the Company shall accelerate fully the vesting of any outstanding Options granted to the Employee and the Employee shall be entitled to exercise his vested Options for twelve (12) months following the date of termination without Cause or resignation for Good Reason. At the expiration of such twelve (12) month period, all Options shall terminate.

(d) Restricted Stock Units. In the event of a termination without Cause or for Good Reason, the terms of the Company's 2005 Restricted Stock Unit Award Plan and the Restricted Stock Unit Award Agreement(s) between the Company and the Employee issued pursuant to the 2005 Restricted Stock Unit Award Plan shall govern the vesting and distribution relating to any Restricted Stock Units.

(e) The Company shall not have any further obligations to provide the Employee with any further payments, benefits, or remuneration upon a termination without Cause of for Good Reason.

6.7 Change of Control. In the event that (i) a Change of Control (as hereinafter defined) occurs during the Term and (ii) the Employee's employment with the Company is terminated without Cause or for Good Reason, the Employee shall be entitled to the accrued salary, unused vacation, bonus, Severance Pay, benefits, and stock option treatment as are provided in Sections 6.6(a), (b), and (c) above, except, that the Severance Pay shall be payable in a lump sum in cash (x) within thirty-one (31) days after the date of such termination; provided such termination occurs within two years after the Change of Control and such Change of Control meets the requirements for a "change of control" under Section 409A of the Code, or (y) six months and one day after such termination if the requirements of subsection (x) are not met. The Employee shall give the Company not less than sixty (60) days' prior written notice of a termination of employment with the Company following a Change of Control transaction if the Employee is terminating for Good Reason. Notwithstanding any language to the contrary contained in any Option agreement with the Employee, the Employee shall be entitled to exercise his vested Option shares for twelve (12) months following the date of termination without Cause or resignation for Good Reason. At the expiration of such twelve (12) month period, all Options shall terminate. For purposes of this Section 7.7, the term "**Change of Control**" means the occurrence of any of the following, in one or a series of related transactions: (v) the sale or transfer of fifty percent (50%) or more of the Outstanding Shares of the Company to any person or entity other than (i) a transfer to a wholly-owned subsidiary of the Company, or (ii) a transfer by a holder or holders of the Company's common stock or convertible securities as of the date hereof to Affiliates (as defined below); or (w) the sale, lease or other transfer of all or substantially all of the assets or earning power of the Company to any person or entity other than (i) to a wholly-owned subsidiary of the Company, (ii) to an Affiliate whereby the purpose or effect of such transfer is to provide for the transfer by a holder or holders of the Company's common stock or convertible securities as of the date hereof of such holders' direct or indirect interests in the assets of the Company to Affiliates and so long as such transfer does not result in a transaction described by one of the other clauses of this paragraph of Section 6.7, or (iii) the license of all or any portion of the Company's Aversion® Technology and product related assets, in one or more transactions; or (x) merger, consolidation, reorganization, recapitalization, share exchange, business combination or a similar transaction which results in any person or entity (other than the persons who are shareholders or security holders of the Company immediately prior to such transaction (or their Affiliates as of the date of such transaction)) owning fifty percent (50%) or more of the Outstanding Shares or combined voting power of the Company; or (y) merger, consolidation, reorganization, business combination or a similar transaction in which the Company is not the surviving entity; or (z) a transaction commonly known as "going private" whereby the Company engages one or a series of transactions which results in the Company not being required to file periodic reports with the Securities and Exchange Commission, unless the Employee is a participant in such transaction. "**Outstanding Shares**" shall mean the total number of common shares and common share equivalents of the Company outstanding at the time the Change of Control, including, without limitation, shares of common stock underlying debentures, preferred stock, options, warrants and other convertible securities. "**Affiliate**" shall mean (i) any person or entity controlling, controlled by or under the common control of the existing holders of common stock or convertible securities of the Company and (ii) any partner, shareholder or member of the existing holders of common stock or convertible securities of the Company. For the purposes hereof, "**control**" shall mean the direct or indirect ownership of at least fifty (50%) percent of the outstanding shares or other voting rights of the subject entity or if it possesses, directly or indirectly, the power to direct or cause the direction of management and policies of such other entity. In the event that the Employee resigns or terminates his employment following a Change of Control as described above, the Employee acknowledges and agrees that upon the request of the Company, he will execute and deliver a release in customary form releasing all claims of the Employee arising out of his employment with the Company except for the obligations of the Company under this Agreement.

7. Protection of Confidential Information. In view of the fact that the Employee's work for the Company will bring him into close contact with all the confidential affairs thereof, and plans for future developments, the Employee agrees to the following:

7.1 Secrecy. During the Term and after the date of termination of the Employee's employment, to preserve the confidential nature of, and not use, disclose, reveal, or make accessible to anyone other than the Company's officers, directors, employees, consultants or agents, otherwise than within the scope of his employment duties and responsibilities hereunder, any and all documents, information, knowledge or data of or pertaining to the Company, its subsidiaries or affiliates, including, without limitation, the Aversion® Technology, or pertaining to any other individual, firm, corporation, partnership, joint venture, business, organization, entity or other person with which the Company or any of its subsidiaries or affiliates may do business during the Term (including licensees, licensors, manufacturers, suppliers and customers of the Company or any of its subsidiaries or affiliates) and which is not in the public domain, including trade secrets, "know how", names and lists of licensees, licensors, manufacturers, suppliers and customers, development plans or programs, statistics, manufacturing and production methods, processes, techniques, pricing, marketing methods and plans, specifications, advertising plans and campaigns or any other matters, and all other confidential information of the Company, its subsidiaries and affiliates (hereinafter referred to as "**Confidential Information**"). The restrictions on the disclosure of Confidential Information imposed by this Section 7.1 shall not apply to any Confidential Information that was part of the public domain at the time of its receipt by the Employee or becomes part of the public domain in any manner and for any reason other than an act by the Employee, unless the Employee is legally compelled (by applicable law, deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process) to disclose such Confidential Information, in which event the Employee shall provide the Company with prompt notice of such requirement so that the Company may seek a protective order or other appropriate remedy, and if such protective order or other remedy is not obtained, the Employee shall exercise reasonable efforts in good faith to obtain assurance that confidential treatment will be accorded such Confidential Information.

7.2 Return Memoranda, etc. The Employee hereby agrees to deliver promptly to the Company on termination of his employment, or at any other time the Company may so request, all memoranda, notes, records, email records, reports, manuals, drawings, blueprints and other documents (and all hard and soft copies thereof) relating to the Company's business and all property associated therewith, which the Employee may then possess or have under his control.

7.3 Non-competition. Provided that this Agreement has not been breached by the Company, the Employee agrees that he shall not at any time prior to one (1) year after the expiration or termination of his employment with the Company for any reason, whether voluntary or involuntary own, manage, operate, be a director or an employee of, or a consultant to or provide any services, consultation or advice to any person, business, corporation, partnership, trust, limited liability company or other firm or enterprise ("**Person**") which is engaged in marketing, selling or distributing products or in developing product candidates in the United States which contain technology meant to achieve all or some of the same effects as the Company's Aversion® Technology or are potentially competitive with: (a) the Company's products or product candidates in development or (b) its licensee's products or product candidates in development that contain Aversion® Technology or any similar abuse deterrent technology. For avoidance of doubt, product candidates are as evidenced by the current written product development plan and/or business plan of the Company at the time of termination of the Employee's employment and/or described in the Company's most recent filing on Form 8-K, Form 10-K or Form 10-Q with the Securities and Exchange Commission as of the date of the termination of the Employee's employment. If any of the provisions of this section, or any part thereof, is hereinafter construed to be invalid or unenforceable, the same shall not affect the remainder of such provision or provisions, which shall be given full effect, without regard to the invalid portions. If any of the provisions of this section, or any part thereof, is held to be unenforceable because of the duration of such provision, the area covered thereby or the type of conduct restricted therein, the parties agree that the court making such determination shall have the power to modify the duration, geographic area and/or other terms of such provision and, as so modified, said provision shall then be enforceable. In the event that the courts of any one or more jurisdictions shall hold such provisions wholly or partially unenforceable by reason of the scope thereof or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the Company's right to the relief provided for herein in the courts of any other jurisdictions as to breaches or threatened breaches of such provisions in such other jurisdictions, the above provisions as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

7.4 Injunctive Relief. The Employee acknowledges and agrees that, because of the unique and extraordinary nature of his services, any breach or threatened breach of the provisions of Sections 7.1, 7.2, or 7.3 hereof will cause irreparable injury and incalculable harm to the Company, and the Company shall, accordingly, be entitled to injunctive and other equitable relief for such breach or threatened breach and that resort by the Company to such injunctive or other equitable relief shall not be deemed to waive or to limit in any respect any right or remedy which the Company may have with respect to such breach or threatened breach.

7.5 Expenses of Enforcement of Covenants. In the event that any action, suit or proceeding at law or in equity is brought to enforce the covenants contained in Section 7.1, 7.2 or 7.3, hereof or to obtain money damages for the breach thereof, the party prevailing in any such action, suit or other proceeding shall be entitled upon demand to reimbursement from the other party for all expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred in connection therewith.

7.6 Non-Solicitation. The Employee covenants and agrees not to (and not to cause or direct any Person to) hire or solicit for employment any employee of the Company or any of its subsidiaries or affiliates. The prohibitions of this Section 7.6 shall apply (i) for six (6) months following the termination of the Employee's employment by the Company without Cause or by the Employee for Good Reason, prior to a Change of Control, (ii) for twelve (12) months following the termination of the Employee's employment for Cause, prior to a Change of Control, or (iii) for twenty-four (24) months following a Change of Control.

7.7 Assignment of Inventions. All discoveries, inventions, improvements and innovations, whether patentable or not (including all data and records pertaining thereto), which Employee may invent, discover, originate or conceive during the Term of this Agreement and which directly relate to the business of the Company or any of its subsidiaries as described in the Company's filings with the Securities and Exchange Commission, shall be the sole and exclusive property of the Company. Employee shall promptly and fully disclose each and all such discoveries, inventions, improvements or innovations to the Company. Employee shall assign and hereby does assign to the Company his entire right, title and interest in and to all of his discoveries, inventions, improvements and innovation described in this Section 7.7 and any related U.S. or foreign patent and patent applications, shall execute any instruments reasonably necessary to convey or perfect the Company's ownership thereof, and shall assist the Company in obtaining, defending and enforcing its rights therein. The Company shall bear all expenses it authorizes to be incurred in connection with such activity and shall pay the Employee reasonable compensation for time spent by the Employee in performing such duties at the request of the Company after the termination of his employment, for a period not to exceed three (3) years.

8. Indemnification. Except as provided below, the Company will defend, indemnify and hold harmless the Employee, to the maximum extent permitted by applicable law and the by-laws of the Company, against all claims, costs, charges and expenses incurred or sustained by him in connection with any action, suit or other proceeding to which he may be made a party by reason of his being an officer, director or employee of the Company or of any subsidiary or affiliate thereof. Furthermore, the Company hereby represents that it will maintain during the Term, Directors and Officers insurance coverage in the amount of at least Ten Million Dollars ($10,000,000), provided that such ten million dollars is payable exclusively for claims against the directors and officers of the Company and not for claims against the Company. Nothing herein shall require the Company to defend, indemnify and/or hold harmless, or maintain insurance coverage for, the Employee against any claims by former employers or companies to whom Employee previously provided services, consultation, or advice, including, without limitation, the Consulting Agreement discussed in Section 9 below, alleging that Employee's performance under this Agreement violates any contractual, legal, or other duties allegedly owed by Employee to them.

9. Warranties and Covenants. The Employee hereby warrants that except for a certain consulting agreement between the Employee and Alpharma as described by the Employee to the CEO, (the "**Consulting Agreement**"), as of the date hereof the Employee is not a party to any other employment contract, express or implied and as of the Commencement Date will not be employed by or acting as a consultant to any person or entity (other than the Company). The Employee warrants that he has no obligation, contractual, legal, or otherwise, which would prevent him from accepting the Company's offer of employment under the terms of this Agreement, from complying with its provisions, or from fully performing the duties and responsibilities of his position under this Agreement. The Employee warrants that he will not utilize or disclose during his employment hereunder any confidential or other proprietary information obtained through or in connection with his prior employment or consulting services. The Employee warrants that he knows of no reason why he would not be able to perform his obligations under this Agreement. The Employee warrants that he has duly executed and delivered this Agreement and it is valid, binding and enforceable against the Employee in accordance with its terms. The Employee covenants that (i) he will promptly terminate the Consulting Agreement in accordance with the termination and notice provisions contained therein, and in any event complete the termination of the Consulting Agreement not later than ninety (90) days from the date of this Agreement, and (ii) he will not act as an employee or consultant to any person or entity during the Term, except for any transitional consulting services provided under the Consulting Agreement pending its termination or (iii) as authorized by the CEO. The Company warrants to the Employee that this Agreement has been duly approved and authorized by its Board of Directors, that this Agreement has been duly executed and delivered on behalf of the Company and that this Agreement is valid, binding and enforceable against the Company in accordance with its terms.

10. Notices. All notices, requests, consents and other communications required or permitted to be given hereunder, shall be in writing and shall be deemed to have been duly given if delivered personally, or transmitted via facsimile, or transmitted via a pdf copy attached to an email, with confirmation of facsimile or pdf copies delivered by overnight delivery via FedEx or similar carriers, to the parties at their respective addresses herein above set forth or to such other address as either party shall designate by notice in writing to the other in accordance herewith.

11. General.

11.1 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the local laws of the State of New York applicable to agreements made and to be performed entirely in New York.

11.2 Captions. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

11.3 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings, written or oral, relating to the subject matter hereof. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not so set forth.

11.4 Assignability. This Agreement, and the Employee's rights and obligations hereunder, may not be assigned by the Employee. The Company may assign its rights, together with its obligations, hereunder in connection with any sale, transfer or other disposition of all or substantially all of its business or assets; in any event the rights and obligations of the Company hereunder shall be binding on its successors or assigns, whether by merger, consolidation or acquisition of all or substantially all of its business or assets.

11.5 Amendment. This Agreement may be amended, modified, superseded, canceled, renewed or extended and the terms or covenants hereof may be waived, only by a written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. No superseding instrument, amendment, modification, cancellation, renewal or extension hereof shall require the consent or approval of any person other than the parties hereto. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

11.6 Counterparts. This Agreement may be executed in one or more facsimile or original counterparts, each of which shall be deemed an original, but all of which taken together will constitute one and the same instrument.

11.7 Severability. The provisions of this Agreement shall be deemed severable, and if any part of any provision is held illegal, void or invalid under applicable law, such provision may be changed to the extent reasonably necessary to make the provision, as so changed, legal, valid and binding. If any provision of this Agreement is held illegal, void or invalid in its entirety, the remaining provisions of this Agreement shall not in any way be affected or impaired but shall remain binding in accordance with their terms.

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

ATTEST:

ACURA PHARMACEUTICALS, INC.

By: /s/ Andrew D. Reddick

Andrew D Reddick
President and Chief Executive Officer

WITNESS:

EMPLOYEE

By: /s/ Garth Boehm

Garth Boehm, Ph.D.
530 Mountain Avenue
Westfield, NJ 07090

EXHIBIT A

ACURA PHARMACEUTICALS, INC.
STOCK OPTION AGREEMENT

ACURA PHARMACEUTICALS, INC., a New York corporation (the "**Company**"), hereby grants **Garth Boehm, Ph.D.** (the "**Optionee**"), an option (the "**Option**") to purchase Ninety-Six Thousand (96,000) shares (the "**Shares**") of the Company's common stock,$.01 par value per share ("**Common Stock**"), at the exercise price set forth in Paragraph 2 hereof, and in all respects subject to the terms, definitions and provisions of the Company's 2008 Stock Option Plan, as amended (the "**Plan**"), and incorporated herein by reference. Terms not defined herein shall have the meanings set forth in the Plan. In the event of any conflict, between the terms of this Agreement and the Plan, the terms of the Plan shall control.

1. NATURE OF OPTION. This Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**"). To the extent the limits of Code Section 422(d) are exceeded, this Option shall be deemed a non-Incentive Stock Option.

2. EXERCISE PRICE. The exercise price of the Shares shall be $_____ per share of Common Stock subject to this Option, which is equal to the last sale price as reported by the NASDAQ Capital Market of the Common Stock on the trading day immediately preceding the Commencement Date (as defined in the Employment Agreement between the Optionee and the Company dated _____).

3. VESTING AND EXERCISE OF OPTION. This Option shall vest and be exercisable to the extent of Four Thousand (4,000) Shares on the last day of each calendar month commencing April 30, 2009. This Option shall be exercisable by written notice as set forth in the Plan.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("**Regulation G**") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require the Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF STATUS AS AN EMPLOYEE. Except in the case of Optionee's termination of employment due to disability (in which case Section 6 below shall govern) or due to death (in which case Section 9(e) of the Plan shall govern), if the Optionee ceases to serve as an Employee, he may, but only within the applicable time periods provided in his Employment Agreement with the Company, exercise this Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise this Option at the date of such termination, or if he does not exercise this Option within the time specified herein, this Option shall terminate.

6. DISABILITY OF OPTIONEE. Notwithstanding the provisions of Section 5 above, if the Optionee is unable to continue his employment with the Company as a result of his total and permanent disability (within the meaning of Section 22(e)(3) of the Code), he may, but only within twelve (12) months from the date of termination of employment due to such disability, exercise this Option to the extent he was entitled to exercise it at the date of such termination. If he does not exercise this Option (which he was entitled to exercise) within the time specified herein, this Option shall terminate.

7. TERM OF OPTION. This Option may not be exercised more than ten (10) years from the Grant Date of this Option, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

8. ACCEPTANCE OF PROVISIONS. The execution of this Option Agreement by Optionee shall constitute Optionee's acceptance of and agreement to all of the terms and conditions of the Plan and this Option Agreement.

9. NOTICES. All notices and other communications required or permitted under the Plan and this Agreement shall be in writing and shall be given either by (i) personal delivery or regular mail, in each case against receipt, or (ii) first class registered or certified mail, return receipt requested. All such notices or communications to the Company shall be addressed to the attention of its Chief Financial Officer, at its then administrative office, and to Optionee at his last address appearing on the records of the Company or, in each case, to such other person or address as may be designated by like notice hereunder.

10. GOVERNING LAW. This Option shall be governed by and construed in accordance with the laws of the State of New York, except to the extent pre-empted by federal law.

11. MISCELLANEOUS. This Agreement and the Plan contain a complete statement of all the arrangements between the parties with respect to their subject matter, and this Agreement cannot be changed except by a writing executed by both parties. All pronouns and any variations thereof used herein refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

DATE OF GRANT: **[**May 4, 2009**]**

ACURA PHAMACEUTICALS, INC.

By: _____

Peter A. Clemens
SVP and Chief Financial Officer

Acknowledgment and Acceptance of Optionee

The Optionee acknowledges receipt of a copy of the Plan and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions of the Plan. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions or disputes arising under the Plan.

Garth Boehm, Ph.D.
530 Mountain Avenue
Westfield, NJ 07090

EXHIBIT B

ACURA PHARMACEUTICALS, INC.
RESTRICTED STOCK UNIT AWARD AGREEMENT

Participant	Garth Boehm, Ph.D.
RSUs Granted	Twenty-Four Thousand (24,000)
Award Date	**[**May 4, 2009**]**
Vesting Schedule	One Thousand (1,000) RSUs shall vest on the last day of each calendar month beginning April 30, 2009

This agreement (the "**RSU Agreement**") is between **ACURA PHARMACEUTICALS, INC.**, a New York corporation (the "**Company**") and the participate named above (the "**Participant**"), and is made in accordance with the Company's 2005 Restricted Stock Unit Award Plan as amended (the "**Plan**").

WITNESSETH

WHEREAS, pursuant to the Plan, the Company has granted to the Participant for services to be rendered to the Company, effective as of the Award Date, a restricted stock unit award (the "**Award**"), upon the terms and conditions set forth herein and in the Plan.

NOW, THEREFORE, in consideration of services to be rendered by the Participant and the mutual promises made herein and the mutual benefits to be derived therefrom, the parties agree as follows:

1. Defined Terms. Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to such terms in the Plan.

2. Grant. Subject to the terms of this RSU Agreement and the Plan, the Company hereby grants to the Participant an Award for the aggregate number of Restricted Stock Units (the "RSUs") set forth above.

3. Vesting. The Award shall vest and become nonforfeitable with respect to the applicable portion of the total number of RSUs comprising the Award (subject to adjustment under Section 10 of the Plan), as described in the Vesting Schedule above, subject to earlier acceleration or termination as provided in Sections 5 and 7 of the Plan. In addition to acceleration of vesting of the Award upon the occurrence of any events providing for acceleration of vesting under Section 5(c) of the Plan, the Award shall fully and immediately vest and become nonforfeitable if the Participant terminates his employment with the Company for "Good Reason" as such term is defined in the Participant's Employment Agreement with the Company dated March _____, 2009. Except as provided in this Section and in Section 5(c) of the Plan, the Participant's RSUs shall be forfeited to the extent such RSUs have not become vested upon the date the Participant's services as an employee terminates. Except as otherwise provided in the Plan, the Vesting Schedule above requires the Participant's full time continued service through each applicable vesting date as a condition to the vesting of the applicable installment and rights and benefits under this Agreement.

4. Plan. The Award and all rights of the Participant with respect thereto are subject to, and the Participant agrees to be bound by, all of the terms and conditions of the provisions of the Plan, incorporated herein by reference. Unless otherwise expressly provided in this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any additional rights in the Participant not expressly set forth in this Agreement. If there is any conflict or inconsistency between the terms and conditions of this Agreement and of the Plan, the terms and conditions of the Plan shall govern. The Participant acknowledges receipt of a copy of the Plan and agrees to be bound by its terms.

IN WITNESS WHEREOF, the parties have executed this RSU Agreement as of the Award Date first above written. By the Participant's execution of this RSU Agreement, the Participant agrees to the terms and conditions of this RSU Agreement and of the Plan.

ACURA PHARMACEUTICALS, INC.

By: _____

Peter A. Clemens
SVP and Chief Financial Officer

PARTICIPANT

By: _____

Garth Boehm, Ph.D.
530 Mountain Avenue
Westfield, NJ 07090

CERTIFICATION OF PERIODIC REPORT PURSUANT TO RULES 13a-14 AND 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Andrew D. Reddick, the Chief Executive Officer of Acura Pharmaceuticals, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Acura Pharmaceuticals, Inc.;

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

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

4. The registrant's other certifying 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly 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 general 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 registrants most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

April 29, 2009

/s/ Andrew D. Reddick
Andrew D. Reddick
Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT PURSUANT TO RULES 13a-14 AND 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Peter A. Clemens, the Chief Financial Officer of Acura Pharmaceuticals, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Acura Pharmaceuticals, Inc.;

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

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

4. The registrant's other certifying 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-(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 subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly 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 registrants most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

April 29, 2009

/s/ Peter A. Clemens
Peter A. Clemens
Chief Financial Officer

CERTIFICATIONS OF THE CHIEF EXEUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Acura Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew D. Reddick, the Chief Executive Officer of the Company, and Peter A. Clemens, Chief Financial Officer certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

April 29, 2009

/s/ Andrew D. Reddick
Andrew D. Reddick
Chief Executive Officer

/s/ Peter A. Clemens
Peter A. Clemens
Chief Financial Officer