Registration No. 333-176951

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

Amendment No. 3 to

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BIOZONE PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Nevada	7389	20-5978559
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Elliot Maza
Chief Executive Officer
550 Sylvan Avenue
Suite 101
Englewood Cliffs, NJ 07632
(201) 608-5101
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Harvey J. Kesner, Esq.
61 Broadway, 32nd Floor
New York, New York 10006
Telephone: (212) 930-9700

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by a 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 accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ☐ Accelerated Filer ☐
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☑

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 28, 2012

PRELIMINARY PROSPECTUS

8,345,310 Shares

BIOZONE PHARMACEUTICALS, INC.

Common Stock

This prospectus relates to the sale by the selling stockholder identified in this prospectus of up to 8,345,310 shares of our common stock. All of these shares of our common stock are being offered for resale by the selling stockholder.

The prices at which the selling stockholder may sell shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive any proceeds from the sale of these shares by the selling stockholder.

We will bear all costs relating to the registration of these shares of our common stock, other than any selling stockholder's legal or accounting costs or commissions.

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "BZNE.OB". The last reported sale price of our common stock as reported by the OTC Bulletin Board on September 27, 2012, was $1.63 per share.

Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described under the heading "Risk Factors" beginning on page 3 of this prospectus before making a decision to purchase our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 28, 2012

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements and related notes included elsewhere in this prospectus. In this prospectus, unless the context provides otherwise, the terms "the Company," "we," "us," and "our" refer to BioZone Pharmaceuticals, Inc.

Overview

We are a manufacturer of pharmaceutical and cosmetic products. We operate through BioZone Pharmaceuticals, Inc. ("BioZone Pharma") and our four wholly owned subsidiaries: BioZone Laboratories, Inc. ("BioZone Labs"), Equalan LLC ("Equalan"), Equachem LLC ("Equachem") and Baker Cummins Corp. ("Baker Cummins").

Our manufacturing business consists of the development and manufacture of over-the-counter (OTC) pharmaceuticals, and skin care, cosmetic and beauty products for third party contract manufacturing customers. We utilize certain proprietary drug delivery technology in the topical and liquid products that we manufacture for third parties, which we refer to as QuSomes®. We do not rely on any third parties to manufacture our products.

Our contract manufacturing customers are regional and national distributors and retailers of healthcare products. Our core business strategy for our manufacturing business is to leverage our QuSomes technology as a value added enhancement.

We manufacture and sell two proprietary brands of skin care products: Glyderm® and Baker Cummins®. Our Glyderm and Baker Cummins customers are drug wholesalers, physicians who use and resell our products in their physician practices and customers who purchase our products over the internet.

In addition, we sell pharmaceutical ingredients containing QuSomes to various healthcare supply manufacturers. Also, we are conducting research related to potential improvements in certain excipients commonly used in generic pharmaceutical products using our proprietary drug delivery technology, which we refer to as EquaSomes™. Our research activities are an immaterial portion of our overall business, and are described in greater detail in our business section below.

We conduct our manufacturing business and research activities through BioZone Labs, our proprietary brand business through Equalan and Baker Cummins and our pharmaceutical ingredient distribution business through Equachem. Equalan markets the Glyderm brand of skin care products, which can be used to improve skin texture and tone. Baker Cummins markets the "P&S" line of scalp and skin care products, which can be used to treat common skin and scalp conditions. These products are sold OTC and include liquids and lotions.

We have licensed the use of QuSomes to BetaZone Pharmaceuticals, LLC ("BetaZone), our 45% owned subsidiary, for application in certain products marketed and to be marketed in Mexico, Central America and South America, and for application in certain products marketed outside of countries in those regions.

On February 24, 2012, BioZone Pharma, BioZone Labs, and Equachem (the "BZL Licensors") and OPKO Pharmaceuticals, LLC ("OPKO") entered into a Limited License Agreement pursuant to which OPKO acquired an exclusive license to the QuSomes® and EquaSomes™ drug delivery technology (the "BioZone Technology") for use in ophthalmological indications and a non-exclusive license to such technology for all other indications.

Our History

We were incorporated under the laws of the State of Nevada on December 4, 2006. On March 1, 2011 we filed a Certificate of Amendment to our Articles of Incorporation in order to change our name to BioZone Pharmaceuticals, Inc. from International Surf Resorts, Inc. Prior to March 2011, we were generally seeking to engage in the business of operating an internet provider of international surf resorts, camps and guided surf tours. In December 2011, we transferred our 55% ownership in ISR de Mexico, S. R.L. de C. V., a Mexican corporation, to certain of our former shareholders in return for and cancellation of 13,948,001 shares of our common stock.

On May 16, 2011, we acquired the assets and assumed the liabilities of Aero Pharmaceuticals, Inc. ("Aero") a Florida corporation, pursuant to an asset purchase agreement dated as of May 16, 2011 by and between the Company, Baker Cummins, and Aero. The asset purchase agreement constituted a plan of reorganization within the meaning of Treasury Regulations Section 1.368-2(g) and constituted a plan of liquidation of Aero. As a result of the asset purchase, we acquired the business of Aero consisting of the manufacturing, marketing and distribution of dermatological products under the trade name of Baker Cummins Dermatologicals (collectively, the "Baker Cummins Assets"). In exchange for the asset purchase we issued an aggregate of 8,331,396 shares of our restricted common stock to Aero, which are being registered hereunder. The transaction was intended to be tax-free for federal income tax purposes, as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder. On September 21, 2011, we issued an additional 13,914 shares to Aero due to the late filing of this registration statement, which shares are also registered hereunder. On December 11, 2011, Aero transferred the shares to the Aero Liquidity Trust, which holds the shares for the benefit of the holders of Aero's common stock.

Under the asset purchase agreement with Aero we acquired the following products, marketed under the Baker Cummins brand: P&S Liquid, P&S Shampoo, Ultra Mide 25 Lotion, Ultra Mide-D, X-Seb T Pearl Shampoo, X-Seb T Plus Shampoo, and Acquaderm Cream.

Under the asset purchase agreement we purchased (i) all rights to manufacture, distribute, market and sell the Baker Cummins Assets, (ii) all trademarks, marketing materials, training materials, market data, clinical data, research data, regulatory data, adverse event data, trade dress information and product labeling data associated with the Baker Cummins assets, (iii) all outstanding customer purchase orders for the Baker Cummins assets, (iv) all contracts relating to the Baker Cummins Assets, (v) all of Aero's existing inventory of the Baker Cummins Assets, (vi) all cash and cash equivalents, (vii) all accounts or notes receivable held by Aero, (viii) all furniture, fixtures, equipment and machinery, books and records related to the Baker Cummins Assets, (ix) all technological, scientific, chemical, biological, pharmaceutical, toxicological, regulatory and clinical trial materials and information relating to the Baker Cummins Assets, and (x) all information owned or licensed by Aero relating to specifications and test methods, raw materials, packaging instructions, master formulas, validation reports, stability data, analytical methods, records of complaints, annual product reviews and other master documents necessary for the manufacture, control and release of the Baker Cummins Assets.

On June 30, 2011, we entered into stock purchase agreements with the shareholders of BioZone Labs pursuant to which we purchased 100% of the outstanding common stock of BioZone Labs. Also on that date, we entered into LLC Membership Interest Purchase Agreements with the members of Equalan and Equachem, pursuant to which we purchased 100% of the outstanding membership interests of Equalan and Equachem, and LLC Membership Interest Purchase Agreements with certain members of BetaZone pursuant to which we purchased 45% of the outstanding membership interests of BetaZone. Under the terms of the foregoing agreements, we issued an aggregate of 21,000,000 shares of our common stock to the owners of the BioZone Labs, subject to the terms of an escrow agreement dated as of June 30, 2011.

THE OFFERING

Common stock offered by selling stockholder:	This prospectus relates to the sale by a single selling stockholder of 8,345,310 shares of our restricted common stock, issued pursuant to an Asset Purchase Agreement dated as of May 16, 2011 by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc.
Offering price:	Market price or privately negotiated prices.
Common stock outstanding before and after the offering:	63,642,969 (1)
Use of proceeds:	We will not receive any proceeds from the sale of the common stock by the selling stockholder.
OTC Symbol:	BZNE.OB
Risk Factors:	You should carefully consider the information set forth in this prospectus and, in particular, the specific factors set forth in the "Risk Factors" section beginning on page 3 of this prospectus before deciding whether or not to invest in our common stock

(1) Represents the number of shares of our common stock issued and outstanding as of September 28, 2012.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such statements include statements regarding our expectations, hopes, beliefs or intentions regarding the future, including but not limited to statements regarding our market, strategy, competition, development plans (including acquisitions and expansion), financing, revenues, operations, and compliance with applicable laws. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail in the following paragraphs. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Market data used throughout this prospectus is based on published third party reports or the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe that such sources are reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified such information.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this prospectus, before purchasing shares of our common stock. There are numerous and varied risks as set forth below that may prevent us from achieving our goals. If any of these risks actually occur, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors could lose all or part of their investment.

Risks related to our company

We have not had profitable operations in recent periods, and our financial losses may continue in the future.

We have recognized a net loss of $4,360,474 for the six months ended June 30, 2012 and net losses of $5,457,310 and $319,813 for the years ended December 31, 2011 and 2010, respectively and expect to incur a net loss for the year ended December 31, 2012.

We are reviewing our manufacturing cost structure to identify inefficiencies and opportunities for reductions and our sales programs to identify opportunities for increasing sales volume. Although we anticipate that these efforts will reduce or eliminate ongoing losses and allow us to continue operations for the foreseeable future, there can be no assurance that our cost reduction and increased sales efforts will prove successful.

We have negative working capital and have sustained operating losses during the past several years.

As of June 30, 2012, we had negative working capital of $5,680,030 which may impact our ability to raise needed capital. Our failure to raise capital when needed would adversely affect our growth opportunities and investment in capital expenditures. We have sustained losses for the years ended December 31, 2010 and 2011.

Our independent auditor has issued an audit opinion which includes a statement describing a substantial doubt whether we will continue as a going concern, which may have a detrimental effect on our ability to obtain additional financing.

The continuation of the Company as a going concern is dependent upon, among other things, the attainment of profitable operations and the ability of the Company to obtain necessary equity or debt financing. These factors, among others, raise substantial doubt regarding the Company's ability to continue as a going concern. Accordingly, the audit report prepared by our independent registered public accounting firm relating to the consolidated financial statements for the years ended December 31, 2011 and 2010 includes an explanatory paragraph expressing substantial doubt about its ability to continue as a going concern. Our auditor's going concern opinion may have a detrimental effect on our ability to obtain additional funding.

Our business will require additional capital for continued growth, and our growth may be slowed if we do not have sufficient capital.

The continued growth and operation of our business will require additional funding for working capital. We may be unable to secure such funding when needed in adequate amounts or on acceptable terms, if at all. To execute our business strategy, we may issue additional equity securities in public or private offerings, potentially at a price lower than the market price at the time of such issuance. The issuances of additional securities in public and private offerings will dilute our current investors' interest in the Company. Similarly, we may seek debt financing and may be forced to incur significant interest expense. The issuance of debt securities may provide such holders with rights superior to existing shareholders. If we cannot secure sufficient funding, we will be forced to forego strategic opportunities or delay, scale back or eliminate operations, acquisitions, and other investments.

Our ability to obtain needed financing may be impaired by such factors as the condition of the economy and capital markets, both generally and specifically in our industry, and the fact that we are not profitable, which could impact the availability or cost of future financings. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, even to the extent that we reduce our operations accordingly, we may be required to cease operations. As of the date of this prospectus, we have not approached any new sources for additional funding and have not entered into negotiations for a transaction, other than those transactions that have already been disclosed in our filings with the SEC.

Risks related to our industry

We operate in a highly regulated industry. An inability to meet current or future regulatory requirements in the United States or foreign jurisdictions could have a material adverse effect on our business, financial position and operating results.

All facilities where Rx and OTC drugs are manufactured, tested, packaged, stored or distributed must comply with the FDA's Current Good Manufacturing Processes ("cGMPs"). All of our drug products are manufactured, tested, packaged, stored and distributed according to cGMP regulations. The FDA performs periodic audits to ensure that our facilities remain in compliance with all appropriate regulations. Typically, after the FDA completes its inspection, it may or may not issue the Company a report on Form 483, Notice of Observations, containing the FDA's observations of possible violations of cGMP. These violations can range from minor to severe in nature. The degree of severity of the violation is generally determined by the time necessary to remediate the cGMP violation, and any adverse consequences for the consumer of our drug products. If the deficiency observations are determined to be severe, the FDA may elect to issue a Warning Letter to us. FDA guidelines specify that a warning letter be issued only for violations of "regulatory significance" for which the failure to adequately and promptly achieve correction may be expected to result in further enforcement action. In addition to making its concerns public, the FDA could impose sanctions including, among others, fines, product recalls, total or partial suspension of production and/or distribution, suspension of the FDA's review of product applications, injunctions and civil or criminal prosecution. These enforcement actions, if imposed, could have a material adverse effect on our operating results and financial condition. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. In January and November 2011 and in August 2012, the FDA performed three separate GMP surveillance inspections of BioZone Labs' facilities located in Pittsburg, California to audit our compliance against 21CFR Part 210 and Part 211, cGMP. The inspections were routine GMP surveillance audits and were not triggered by any specific event, nor were they related to a specific product. At the conclusion of each audit, the FDA inspectors issued Form 483 Notice of Observations. We provided adequate and timely responses to the FDA findings and provided commitments and timelines for the remediation of the conditions cited by the FDA. The FDA classified the inspections as VAI, Voluntary Action Indicated, and no Warning Letters were issued, which demonstrates the adequacy of our responses. As of the date hereof, we have not received any additional correspondence from the FDA regarding these three inspections. We believe that the remedial actions we are taking adequately respond to the FDA's observations on Form 483. However, the FDA may conclude that our actions are insufficient to meet regulatory standards. If compliance is deemed deficient in any significant way, it could have a material adverse effect on our business.

In addition to the FDA, several U.S. agencies regulate the manufacturing, processing, formulation, packaging, labeling, testing, storing, distribution, advertising and sale of our products. Various state and local agencies also regulate these activities. Should any of our third party pharmaceutical ingredient suppliers fail to adequately conform or comply with manufacturing, quality and testing guidelines and regulations, we could experience a significant adverse impact on our operating results.

Significant increases in the cost of raw materials used in our contract manufacturing business could adversely impact our profit margins and operating results.

Affordable high quality raw materials and packaging components are essential to our business due to the nature of the products we manufacture. Our contract manufacturing customers either supply us with the raw materials and packaging components necessary to manufacture their finished products or reimburse us for the cost of such materials and components as part of our sales price to them. Moreover the raw materials and packaging components that we use are generally available from multiple suppliers and we have not experienced any problems with contaminated raw materials that would impact our business. However, a rapid increase in cost of raw materials from various factors, such as inflationary forces or scarcity, could have a material impact on our financial results if we are unable to pass on these increased costs to our customers.

If we fail to obtain, apply for, adequately prosecute to issuance, maintain, protect or enforce patents for our inventions and products, the value of our intellectual property rights and our ability to license, make, use or sell our products would materially diminish or could be eliminated entirely.

Our competitive position and future revenues, especially with regard to our strategy to leverage the BioZone Technology to increase sales, will depend in part on our ability to obtain and maintain patent protection for our inventions and products and for methods, processes and other technologies, as well as our ability to preserve our trade secrets, prevent third parties from infringing on our proprietary rights or invalidating our patents and operate without infringing the proprietary rights of third parties. The risks include the following:

- Some of our issued patents or any patents that are issued to us in the future may be determined to be invalid and/or unenforceable, or may offer inadequate protection against competitive products;

- If we have to defend the validity of our patents or any future patents or protect against third party infringements, the costs of such defense are likely to be substantial and we may not achieve a successful outcome;

- Others may obtain patents claiming aspects similar to those covered by our patents and patent applications, which could enable them to make and sell products similar to ours; and

- We may be estopped from claiming that one or more of our patents is infringed upon due to amendments to the claims and/or specification, or as a result of arguments that were made during prosecution of such patents in the United States Patent and Trademark Office, or by virtue of certain language in the patent application. The estoppel may result in claim limitation and/or surrender of certain subject matter to the public domain or the ability of competitors to design around our claims and/or avoid infringement of our patents. If our patents or those patents for which we have license rights become involved in litigation, a court could revoke the patents or limit the scope of coverage to which they are entitled.

If we fail to obtain and maintain adequate patent protection and trade secret protection for our products, proprietary technologies and their uses, we could lose any competitive advantage and the competition we face could increase, thereby reducing our potential revenues and adversely affecting our ability to attain or maintain profitability.

A dispute concerning the infringement or misappropriation of our proprietary rights or the proprietary rights of others could be time consuming and costly and an unfavorable outcome could harm our business.

There is significant litigation in the biotechnology field regarding patents and other intellectual property rights. We may be exposed to future litigation by third parties based on claims that our products, technologies or activities infringe the intellectual property rights of others. Although we try to avoid infringement, and as of the date hereof, there are no claims against us alleging infringement, there is the risk that we will use a patented technology owned or licensed by another person or entity and/or be sued for infringement of a patent owned by a third party. Under current United States law, patent applications are confidential for 18 months following their priority filing date and may remain confidential beyond 18 months if no foreign counterparts are applied for in jurisdictions that publish patent applications. There are many patents relating to the use of lipids and liposomes. If our products or methods are found to infringe any patents, we may have to pay significant damages and royalties to the patent holder or be prevented from making, using, selling, offering for sale or importing such products or from practicing methods that employ such products.

In addition, we may need to resort to litigation to enforce our patents issued to us, protect our trade secrets or determine the scope and validity of third-party proprietary rights. Such litigation could be expensive and there is no assurance that we would be successful. From time to time, we may hire scientific personnel formerly employed by other companies involved in one or more fields similar to the fields in which we are working. Either these individuals or we may be subject to allegations of trade secret misappropriation or similar claims as a result of their prior affiliations. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources, regardless of whether we win or lose. As a result, we could be prevented from commercializing current or future products or methods.

Confidentiality provisions in our employee handbook and individual consulting agreements may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property.

Our success also depends upon the skills, knowledge and experience of our scientific and technical personnel, our consultants and advisors and contractors. Our employee handbook, a copy of which is signed by each employee, provides that employees shall not disclose any of our trade secrets, directly or indirectly, or use them in any way, either during the term of their employment or at any time thereafter, except as required in the course of employment with the Company. However, the confidentiality provisions in our employee handbook and consulting agreements may be breached and in addition, may not effectively assign intellectual property rights to us. Our trade secrets also could be independently discovered by competitors, in which case we would not be able to prevent use of such trade secrets by our competitors. The enforcement of a claim alleging that a party illegally obtained and was using our trade secrets could be difficult, expensive and time consuming and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain meaningful trade secret protection could adversely affect our competitive position.

We face significant competition.

The contract manufacturing business is highly competitive and price sensitive. We face competition from multiple competitors, some of whom are larger and more financially secure than we. They may reduce prices to an unacceptably low level for us in order to increase their sales. Therefore, we can make no assurance that we will grow our contract manufacturing business or maintain our current level of sales in the future.

Our proprietary skin care products compete against other similar products marketed by companies much larger than we and who spend much more than us on consumer advertising. The skin care product business is highly promotion sensitive and we have a limited advertising budget. Therefore, we can make no assurance that we will grow sales of our proprietary skin care brands or maintain our current level of sales in the future.

Risks related to management

We rely on key executive officers and their knowledge of our business and technical expertise would be difficult to replace .

We are highly dependent on Elliot Maza, our Chief Executive Officer, Chief Financial Officer and Secretary; Dr. Brian Keller, our President and Chief Scientific Officer, and Christian Oertle, our Chief Operating Officer. We do not have "key person" life insurance. The loss of Mr. Maza, Dr. Keller or Mr. Oertle may have an adverse effect on our business. Dr. Keller and Mr. Oertle are each subject to three year written employment agreements with the Company. Each of the employment agreements may be terminated by the Company at will, subject to an obligation to pay severance for six months at the then applicable monthly base salary. We are competing for employees against companies that are more established than we are, and have the ability to pay more cash compensation than we do. As of the date hereof, we have not experienced problems hiring employees in the recent past.

Because Elliot Maza, our Chief Executive Officer, Chief Financial Officer and Secretary, devotes only a portion of his business time to us, conflicts of interests may arise with respect to his other activities which could materially and adversely affect our Company.

Elliot Maza, our Chief Executive Officer, Chief Financial Officer and Secretary, does not work for us exclusively as he is also the Chief Financial Officer of Intellect Neurosciences, Inc., a development stage biotechnology company focused on the development of novel therapeutics for Alzheimer's disease. Intellect Neurosciences, Inc. does not manufacture or sell any products. We do not consider Intellect Neurosciences, Inc. to be a competitor of the Company. It is possible that a conflict of interest may arise with respect to Mr. Maza's other employment. Mr. Maza devotes all of his time to Company matters except for approximately 10 hours per week that he devotes to Intellect Neurosciences, Inc. matters. We have not adopted any policies or procedures for the review and approval of any transactions that may cause a conflict of interest.

Our officers and directors hold a substantial number of shares of our common stock.

Our officers and, directors and their affiliates own or control an aggregate of 10,639,467 shares of the Company's common stock, which represents approximately 16.8% of our issued and outstanding common stock as of September 28, 2012. Therefore, our officers and directors could exert substantial influence over any election of our directors and our operations. Moreover, authorization to modify our Articles of Incorporation, as amended, requires only majority stockholder consent. This concentration of ownership could also have the effect of delaying or preventing a change in control. Additionally, potential conflicts of interest may arise between our officers and directors and our shareholders and our officers and directors may vote their shares in a way that our other shareholders do not approve.

Our obligations to indemnify our directors and officers may pose substantial risks to our financial condition.

We have obtained directors' and officers' liability insurance insuring our directors and officers against liability for acts or omissions in their capacities as directors or officers, subject to certain exclusions. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, we may enter into indemnification agreements with key officers and directors and such persons shall also have indemnification rights under applicable laws, and the Company's Articles of Incorporation and Bylaws. Our obligations to indemnify our directors and officers may pose substantial risks to our financial condition, as we may not be able to maintain our insurance or, even if we are able to maintain our insurance, claims in excess of our insurance coverage could materially deplete our assets.

Risks related to our common stock

Shares of our stock suffer from low trading volume and wide fluctuations in market price.

Our common stock is currently quoted on the Over the Counter Bulletin Board trading system under the symbol BZNE.OB. Currently an investment in our common stock is illiquid and subject to significant market volatility. This illiquidity and volatility may be caused by a variety of factors including low trading volume and market conditions.

In addition, the value of our common stock could be affected by actual or anticipated variations in our operating results; changes in the market valuations of other similarly situated companies serving similar markets; announcements by us or our competitors of significant acquisitions, strategic partnerships, collaborations, joint ventures or capital commitments; adoption of new accounting standards affecting our industry; additions or departures of key personnel; introduction of new products or services by us or our competitors; actual or expected sales of our common stock or other securities in the open market; conditions or trends in the market in which we operate; and other events or factors, many of which are beyond our control.

Stockholders may experience wide fluctuations in the market price of our securities. These fluctuations may have an extremely negative effect on the market price of our securities and may prevent a stockholder from obtaining a market price equal to the purchase price such stockholder paid when the stockholder attempts to sell our securities in the open market. In these situations, the stockholder may be required either to sell our securities at a market price which is lower than the purchase price the stockholder paid, or to hold our securities for a longer period of time than planned. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies by using common stock as consideration or to recruit and retain managers with equity-based incentive plans.

We cannot assure you that our common stock will become listed on NYSE MKT LLC, Nasdaq or any other securities exchange.

We plan to seek listing of our common stock on NYSE MKT LLC or Nasdaq within the next three years. However, we do not currently meet the initial listing standards of those exchanges and there are no assurances that we will be able to meet the initial listing standards of either of those or any other stock exchange, or that we will be able to maintain a listing of our common stock on either of those or any other stock exchange. Currently, we do not meet the corporate governance standards of either Nasdaq or NYSE MKT LLC as they relate to director independence and the formation of an independent audit and compensation committee of our Board of Directors. We do not currently have an audit committee or a compensation committee of our Board of Directors nor do we currently have any independent members of our Board of Directors. Until our common stock is listed on NYSE MKT LLC or Nasdaq or another stock exchange, we expect that our common stock will continue to trade on the Over-The-Counter Bulletin Board, where an investor may find it difficult to dispose of our shares of common stock.

We will incur significant costs as a result of being an operating public company.

As a public operating company, we will incur significant legal, accounting and other expenses not incurred by a private company. If our stock becomes listed on Nasdaq or another major exchange or if our total assets exceed $10 million at the end of any fiscal year, we will also incur additional compliance expenses. It may be time consuming, difficult and costly for us to develop and implement the additional internal controls, processes and reporting procedures required by the Sarbanes-Oxley Act of 2002, SEC proxy rules, other government regulations affecting public companies and/or stock exchange compliance requirements. As we currently do not have a large financial reporting, internal auditing and other finance staff, we may need to hire additional financial reporting, internal auditing and other finance staff in order to develop and implement appropriate additional internal controls, processes and reporting procedures. We anticipate incurring approximately $100,000 in legal costs and $100,000 in accounting costs over the next 12 months as a result of our public company status.

Our common stock is subject to the "Penny Stock" rules of the SEC, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

Our common stock is considered a "Penny Stock". The Securities and Exchange Commission has adopted Rule 15g-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock. The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a stockholder's ability to buy and sell our stock. In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit investors' ability to buy and sell our stock and have an adverse effect on the market for our shares.

Our common stock may be affected by limited trading volume and price fluctuation which could adversely impact the value of our common stock.

There has been limited trading in our common stock and there can be no assurance that an active trading market in our common stock will either develop or be maintained. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to periodically enter the market in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our common stock will be stable or appreciate over time.

We have never paid nor do we expect in the near future to pay dividends.

We have never paid cash dividends on our capital stock and do not anticipate paying any cash dividends on our common stock for the foreseeable future. Investors should not rely on an investment in our Company if they require income generated from dividends paid on our capital stock. Any income derived from our common stock would only come from rise in the market price of our common stock, which is uncertain and unpredictable.

We and our security holders are not subject to some reporting requirements applicable to most public companies; therefore, investors may have less information on which to base an investment decision.

We do not have a class of securities registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Therefore, we do not prepare proxy or information statements in accordance with Section 14(a) of the Exchange Act with respect to matters submitted to the vote of our security holders, including, but not limited to, an increase in our authorized capital stock or the adoption of stock option plans. Our officers, directors and beneficial owners of more than 10% of our common stock are not required to file statements of beneficial ownership on SEC Forms 3, 4 and 5 pursuant to Section 16 of the Exchange Act, which such forms would disclose the reporting person's initial ownership interest in our Company and would be subsequently updated to disclose any additional transactions. Beneficial owners of more than 5% of our outstanding common stock are not required to file reports on SEC Schedules 13D or 13G. Therefore, investors in our securities will not have any such information available in making an investment decision.

We lack proper internal controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management has identified certain material weaknesses relating to our internal controls and procedures. The reason for the ineffectiveness of our disclosure controls and procedures was the result of the lack of segregation of duties and responsibilities with respect to our cash control over the disbursements related thereto. The lack of segregation of duties resulted from our limited accounting staff.

We may fail to qualify for continued listing on the OTC Bulletin Board, which could make it more difficult for investors to sell their shares.

Our common stock is quoted on the Over the Counter Bulletin Board ("OTCBB"). There can be no assurance that quotation of our common stock will be sustained. In the event that our common stock fails to qualify for continued quotation, our common stock could thereafter only be quoted on the "pink sheets." Under such circumstances, shareholders may find it more difficult to dispose of, or to obtain accurate quotations, for our common stock, and our common stock would become substantially less attractive to certain purchasers such as financial institutions, hedge funds and other similar investors.

Investor relations activities, nominal "float" and supply and demand factors may affect the price of our stock.

The Company expects to utilize various techniques such as non-deal road shows and investor relations campaigns in order to create investor awareness for the Company. These campaigns may include personal, video and telephone conferences with investors and prospective investors in which our business practices are described. The Company may provide compensation to investor relations firms and pay for newsletters, websites, mailings and email campaigns that are produced by third-parties based upon publicly-available information concerning the Company. The Company does not intend to review or approve the content of such analysts' reports or other materials based upon analysts' own research or methods. Investor relations firms should generally disclose when they are compensated for their efforts, but whether such disclosure is made or complete is not under our control. In addition, investors in the Company may, from time to time, also take steps to encourage investor awareness through similar activities that may be undertaken at the expense of the investors. Investor awareness activities may also be suspended or discontinued which may impact the trading market our common stock.

The SEC and FINRA enforce various statutes and regulations intended to prevent manipulative or deceptive devices in connection with the purchase or sale of any security and carefully scrutinize trading patterns and company news and other communications for false or misleading information, particularly in cases where the hallmarks of "pump and dump" activities may exist, such as rapid share price increases or decreases. We, and our shareholders may be subjected to enhanced regulatory scrutiny due to the small number of holders who initially will own the registered shares of our common stock publicly available for resale, and the limited trading markets in which such shares may be offered or sold which have often been associated with improper activities concerning penny-stocks, such as the OTC Bulletin Board or the OTCQB Marketplace (Pink OTC) or pink sheets. Until such time as our restricted shares are registered or available for resale under Rule 144, there will continue to be a small percentage of shares held by a small number of investors, many of whom acquired such shares in privately negotiated purchase and sale transactions, which will constitute the entire available trading market. The Supreme Court has stated that manipulative action is a term of art connoting intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities. Often times, manipulation is associated by regulators with forces that upset the supply and demand factors that would normally determine trading prices. Since a small percentage of the outstanding common stock of the Company will initially be available for trading, held by a small number of individuals or entities, the supply of our common stock for sale will be extremely limited for an indeterminate amount of time, which could result in higher bids, asks or sales prices than would otherwise exist. Securities regulators have often cited factors such as thinly-traded markets, small numbers of holders, and awareness campaigns as hallmarks of claims of price manipulation and other violations of law when combined with manipulative trading, such as wash sales, matched orders or other manipulative trading timed to coincide with false or touting press releases. There can be no assurance that the Company's or third-parties' activities, or the small number of potential sellers or small percentage of stock in the "float," or determinations by purchasers or holders as to when or under what circumstances or at what prices they may be willing to buy or sell stock will not artificially impact (or would be claimed by regulators to have affected) the normal supply and demand factors that determine the price of the stock.

USE OF PROCEEDS

The selling stockholder will receive all of the proceeds from the sale of the shares offered by them under this prospectus. We will not receive any proceeds from the sale of the shares by the selling stockholder covered by this prospectus.

MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted on the OTC Bulletin Board under the symbol "BZNE.OB since March 7, 2011 and prior to that under the symbol "ISFR". The following table sets forth the high and low prices as reported on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. Prior to May 19, 2011, there was no active market for our common stock. As of September 27, 2012, there were approximately 89 holders of record of our common stock.

Fiscal year ended December 31, 2011 **Period**	**High**	**Low**
May 19, 2011 through June 30, 2011	$ 5.50	$ 1.50
July 1, 2011 through September 30, 2011	$ 4.65	$ 1.50
October 1, 2011 through December 31, 2011	$ 4.64	$ 3.68
Fiscal year ended December 31, 2012		
January 1, 2012 through March 31, 2012	$ 3.69	$ 1.60
April 1, 2012 through June 30, 2012	$ 4.00	$ 1.04
July 1, 2012 through September 27, 2012	$ 4.00	$ 0.51

The last reported sales price of our Common stock on the OTC Bulletin Board on September 27, 2012 was $1.63 per share.

DIVIDEND POLICY

We have not declared nor paid any cash dividend on our Common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our Common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers significant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors".

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, our audited condensed consolidated financial statements and related notes included elsewhere in this registration statement. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The statements, which are not historical facts contained in this registration statement, including this Management's discussion and analysis of financial condition and results of operation, and notes to our unaudited condensed consolidated financial statements, particularly those that utilize terminology such as "may" "will," "should," "expects," "anticipates," "estimates," "believes," or "plans" or comparable terminology are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and our actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, dependence on existing and future key strategic and strategic end-user customers, limited ability to establish new strategic relationships, ability to sustain and manage growth, variability of operating results, our expansion and development of new service lines, marketing and other business development initiatives, the commencement of new engagements, competition in the industry, general economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of our clients, the potential liability with respect to actions taken by our existing and past employees, risks associated with international sales, and other risks described herein and in our other filings with the Securities and Exchange Commission.

The safe harbor for forward-looking statements provided by Section 21E of the Securities Exchange Act of 1934 excludes issuers of "penny stock" (as defined under Rule 3a51-1 of the Securities Exchange Act of 1934). Our common stock currently falls within that definition.

All forward-looking statements in this document are based on information currently available to us as of the date of this registration statement, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Company Overview

BioZone Pharmaceuticals, Inc., formerly known as International Surf Resorts, Inc., was incorporated under the laws of the State of Nevada on December 4, 2006 to operate as an internet-based provider of international surf resorts, camps and guided surf tours. The Company proposed to engage in the business of vacation real estate and rentals related to its surf business and it owned the website isurfresorts.com. During late February 2011, the Company began to explore alternatives to its original business plan. On February 22, 2011, the prior officers and directors resigned from their positions and the Company appointed a new President, Director, principal accounting officer and treasurer and began to pursue opportunities in medical and pharmaceutical technologies and products. On March 1, 2011, the Company changed its name to BioZone Pharmaceuticals, Inc.

On May 16, 2011, the Company acquired substantially all of the assets and assumed all of the liabilities of Aero pursuant to an Asset Purchase Agreement dated as of that date. Aero manufactures markets and distributes a line of dermatological products under the trade name of Baker Cummins Dermatologicals.

In December 2011, the Company transferred its 55% ownership in ISR de Mexico, S. R.L. de C. V., a Mexican corporation that was owned by the Company during the period prior to February 22, 2011, in return for and cancellation of 13,948,001 shares of the Company's common stock from former Shareholders of the Company. The Company intended that simultaneous with the acquisition of Aero, the 55% ownership in ISR de Mexico, S. R.L. de C. V., would be transferred to the former shareholders of the Company in return for and cancellation of 13,948,001 shares of the Company's common stock. The actual transfer was delayed because of the failure to locate missing stock certificates, which were located subsequently. The Company accounted for the transfer of the 55% ownership in ISR de Mexico, S. R.L. de C. V in exchange for the shares in accordance with the Company's intent and treated the exchange as having occurred simultaneously with the acquisition.

Reverse Merger

Pursuant to authoritative accounting guidance, we accounted for the purchase of the BioZone Labs Group as a "Reverse Merger", with each of BioZone Labs, Equalan and Equachem, treated as the accounting survivor. On June 30, 2011, the Company acquired all of the outstanding shares of BioZone Laboratories, Inc. and its affiliates. BioZone Labs primarily is engaged in the business of developing and manufacturing Over the Counter ("OTC") drug products and cosmetic and beauty products on behalf of third parties. Equalan, related to BioZone Labs through common stock ownership, markets a line of proprietary skin care products under the brand names of Glyderm®.

Equachem also related to BioZone Labs through common stock ownership, sells raw materials used in OTC drugs and cosmetic products. We refer to BioZone Labs, Equalan and Equachem as the "BioZone Labs Group". The BioZone Labs Group generated $12.6 and $15.3 million of sales during the years ended December 31, 2011 and 2010, respectively, of which $11.3 million or 89% and $13.9 million or 91%, respectively, were generated by BioZone Labs from its third party contract manufacturing business.

As disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2011, our management has concluded that the Company's disclosure controls and procedures were ineffective as of December 31, 2011 (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act). If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Results of Operations

Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011:

Sales.

Sales for the three months ended June 30, 2012 and 2011 were $4,912,144 and $2,570,936, respectively. The increase in sales of $2,341,208 or 46.8% was primarily attributable to increases in customer orders from increased end-user demand.

Cost of Sales and Gross Profit.

Cost of sales for the three months ended June 30, 2012 and 2011 was $2,881,472 and $1,687,705, respectively, resulting in gross profit of $2,030,672 and $883,231, respectively. The gross profit percentage for the three months ended June 30, 2012 and 2011 was approximately 41% and 34%, respectively. The increase in gross profit of $1,147,441 and resulting increase in gross profit percentage is largely attributable to the increase in order size, resulting in greater labor efficiency, and an increase in sales of select products with increased margins.

Operating Expenses.

We had total operating expenses of $1,767,984 for the three months ended June 30, 2012 as compared to $1,342,947 for the three months ended June 30, 2011. The increase in operating expenses of $425,037 or 16.8% is due to an increase of general and administrative expenses of $176,007 which is primarily due to an increase in professional fees of $173,000, and an increase in depreciation and amortization primarily due to the amortization of our intangible assets, offset by small decreases in other accounts. Our selling expenses increased by $95,918 or 33.6% to $242,976 for the three months ended June 30, 2012 from $147,058 for the three months ended June 30, 2011, due to the increase in sales. Our research and development expenses increased $153,112, which primarily is due to the opening of our research facility in Princeton, New Jersey and the addition of five new staff members.

Interest Expense.

We incurred interest expense of $1,014,852 for the three months ended June 30, 2012 as compared to $108,686 for the three months ended June 30, 2011. The increase in interest expense of $906,166 is due to the recording of a debt discount of $580,768 related to the derivative liability of the June 2012 Warrants, accretion of debt discount of $287,500, and interest related to increased borrowings.

Change in value of derivative instruments.

We recorded a gain of $37,726 for the three month period ended June 30, 2012 resulting from the decrease in the fair value of our derivative instruments. We had no derivative instruments outstanding with measurable fair value during the comparable period last year.

Net Loss / Income.

As a result of the foregoing, we realized a net loss of $714,438 for the three months ended June 30, 2012 as compared to a net loss of $568,402 for the three months ended June 30, 2011, an increase in net loss of $146,036.

Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011:

Sales.

Sales for the six months ended June 30, 2012 and 2011 were $8,422,186 and $5,007,315 respectively. The increase in sales of $3,414,871 or 68.2% was primarily attributable to increases in customer orders from increased end-user demand for our products.

Cost of Sales and Gross Profit.

Cost of sales for the six months ended June 30, 2012 and 2011 was $4,946,353 and $3,364,764, respectively, resulting in gross profit of $3,475,833 and $1,642,551, respectively. The gross profit percentage for the six months ended June 30, 2012 and 2011 was approximately 41% and 33%, respectively. The increase in gross profit of $1,833,282 and resulting increase in gross profit percentage is largely attributable to the increase in order size, resulting in greater labor efficiency, and an increase in sales of select products with increased margins.

Operating Expenses

We had total operating expenses of $3,804,528 for the six months ended June 30, 2012 as compared to $2,531,965 for the six months ended June 30, 2011. The increase in operating expenses of $1,272,563 or 50.3% is due to an increase of general and administrative expenses of $780,211, which primarily is due to an increase in professional fees of $470,000, consisting of legal fees relating to general corporate governance, patent fees, consulting fees and audit and accounting fees, and an increase in depreciation and amortization due to the amortization of our intangible assets. Our selling expenses increased by $179,390 or 62.9% to 464,537 for the three months ended June 30, 2012, compared to $285,147 for the three months ended June 30, 2011, due to the sales increase. Our research and development expenses increased $312,962, which primarily is due to the opening of our research facility in Princeton, New Jersey and the addition of five new staff members.

Interest Expense.

We incurred interest expense of $4,487,697 for the six months ended June 30, 2012 as compared to $222,195 for the six months ended June 30, 2011. The increase in interest expense of $4,265,502 is due to the recording of a debt discount of $3,692,528 related to the derivative liability of the warrants issued in connection with the convertible notes issued in 2012, accretion of debt discount of $383,333 and interest payments related to the repayment of the March 2011 Notes.

Change in value of derivative instruments.

We recorded a gain of $455,918 for the six month period ended June 30, 2012 on the fair value of our derivative instruments. We had no derivative instruments outstanding with measurable fair value during the comparable period last year.

Net Loss / Income.

As a result of the foregoing, we realized a net loss of $4,360,474 for the six months ended June 30, 2012 as compared to a net loss of $1,111,609 for the six months ended June 30, 2011, an increase in net loss of $3,248,865.

Liquidity and Capital Resources

As of June 30, 2012, our current assets were $4,368,821, as compared to $2,904,436 at December 31, 2011. As of June 30, 2012, our current liabilities were $10,048,851, as compared to $7,278,170 at December 31, 2011. The Company's operating activities used net cash of $2,037,681 for the period ended June 30, 2012, as compared to using net cash of $850,273 for the period ended June 30, 2011.

During the period ended June 30, 2012, investing activities used net cash of $277,876, comprised of cash used for the purchase of property and equipment. During the period ended June 30, 2011, investing activities provided cash of $576,344, primarily cash acquired in the Aero acquisition.

During the period ended June 30, 2012, cash of $2,073,436 was provided by financing activities, consisting of proceeds from the issuance of convertible notes of $3,750,000, and the sale of common stock of $650,000. This was offset by repayment of convertible notes payable of $2,175,000, repayments of debt of $126,564, and the payment of financing costs of $25,000, as compared to net cash provided by financing activities of $1,862,139 during the six-month period ended June 30, 2011, which consisted of proceeds from convertible notes of $2,250,000, offset by repayments of existing debt of $237,497, and the payment of financing costs of $150,364.

Our net loss for the six months ended June 30, 2012 and 2011 was a loss of $4,360,474 and a loss of $1,111,609, respectively. The increase in net loss of $3,248,865 includes the effect of non-cash expenses of $4,200,776 offset by a non-cash gain of $455,918 related to the issuance of convertible notes and warrants. As of June 30, 2012, we had cash and cash equivalents of $174,212 and negative working capital of $5,680,030, which includes a non-cash derivative liability of $4,572,341.

We are in the process of reviewing our contract manufacturing cost structure to identify inefficiencies and opportunities for reductions. Also, we are reviewing our sales efforts and programs to identify opportunities for increasing sales volume. We anticipate that these efforts will reduce or eliminate ongoing losses from our contract manufacturing business and allow us to continue operations for the foreseeable future.

These consolidated financial statements are presented on the basis that we will continue as a going concern concept which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As of June 30, 2012 we have a shareholder deficiency of $3,931,522, negative working capital of $5,680,030 (which includes a non-cash derivative liability of $4,572,341), and have sustained operating losses for the prior two fiscal years. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

Off–Balance Sheet Arrangements

As of June 30, 2012 we had no material off-balance sheet arrangements other than operating leases.

Contractual Obligations

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of $200,000 each and the agreement with Mr. Oertle that provides for an annual salary of $150,000. Pursuant to the terms of the agreements, each of these executives is eligible to participate in the Company’s long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board, subject to certain claw back rights. The agreements provide for payments of six months’ severance in the event of early termination (other than for cause).

On February 3, 2012, Mr. Fisher resigned from our Board of Directors. On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President for cause as provided for in Mr. Fisher’s employment Agreement. Pursuant to his employment agreement, Mr. Fisher is entitled to accrued salary through the date of termination. The Company believes that in connection with the audit performed following closing, various material misrepresentations were revealed in the unaudited presentation of the financial condition, assets and liabilities of BioZone . The Company has asserted rights under the escrow agreement that required a post-closing audit and under the employment agreements. Mr. Fisher has asserted certain claims against the Company, and on July 16, 2012, Mr. Fisher commenced an action in the United States District Court in the Northern District of California alleging certain causes of action against the Company, which are further described in the section entitled “Legal Proceedings” herein. On July 18, 2012, the Company commenced an action in the New York State Court against Fisher alleging, among other things, breach of contract, breach of fiduciary duty and negligence. Further discussion of these proceedings is described in the section entitled “Legal Proceedings” herein. The Company believes it has the right to terminate Mr. Fisher and void any share issuances, although the outcome of any future litigation or dispute cannot be predicted.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Sales

Sales for the years ended December 31, 2011 and 2010 was $12,605,146 and $15,253,685 respectively. The decrease in revenue of $2,648,539 or 17.4% primarily was attributable to delays in customer orders from decreased end-user demand.

Cost of Sales and Gross Profit

Cost of sales for the year ended December 31, 2011 and 2010 was $8,639,658 and $8,427,608, respectively, resulting in gross profit of $3,965,488 and $6,826,077, respectively. The gross profit percentage for the year ended December 31, 2011 and 2010 was 32% and 45% respectively. The decrease in gross profit of $2,860,589 was primarily attributable to two items, at the end of the year we reviewed our existing inventory and determined that a portion was obsolete and unusable, as such we decided to write-off the obsolete inventory that had been valued at $1,439,616, while the remainder of the decrease was primarily attributable to decreased end user demand for our products.

Operating Expenses

We had total operating expenses of $7,852,488 for the year ended December 31, 2011 as compared to $6,858,122 for the year ended December 31, 2010. The increase in operating expenses of $1,095,593 is due to an increase in general and administrative expenses $906,711, which is primarily due to an increase in professional fees of approximately $780,000 which consist of legal fees relating to general corporate governance, patent fees, consulting fees and audit and accounting fees as well as small increases in various other accounts, depreciation and amortization expense increased $30,131 due to the addition of the amortization of intangible assets of $35,350, offset by a small decrease in the depreciation of the remaining assets. Research and Development expenses increased $158,751, which is primarily due to the opening of our research facility in Princeton, NJ and the addition of 5 new staff members.

Interest Expense

We incurred interest expense of $1,242,853 for the year ended December 31, 2011 as compared to $439,018 for the year ended December 31, 2010. The increase in interest expense of $803,835 is due primarily to recording a debt discount related to the derivative liability of the warrants issued in connection with the September 2011 Notes warrants of $521,547 and the issuance of $56,250 worth of shares to the September 2011 Notes holders in an exchange for the extension of the notes maturity were accounted for as interest expense, while the remainder of the increase was due to slightly higher interest rates on the average outstanding debt.

Change in value of derivative instruments

We recorded a loss of $281,508 on the fair value of our derivative instruments for the year ended December 31, 2011 compared to the prior year when we had no derivative instruments to value.

Net Loss / Income

As a result of the foregoing, we realized a net loss of $5,457,283 for the year ended December 31, 2011 as compared to a net loss of $319,813 for the year ended December 31, 2010, an increase in net loss of $5,137,470.

Evaluation of Disclosure Controls and Procedures

The reason for the ineffectiveness of our disclosure controls and procedures was the result of the lack of segregation of duties and responsibilities with respect to our cash control over the disbursements related thereto. The lack of segregation of duties resulted from our limited accounting staff. Although neither management nor our independent auditors discovered any significant errors in the preparation of our financial statements, the lack of multiple levels of review and segregation of duties could lead to error or fraud and is considered a per se material weakness in internal controls over financial reporting.

Liquidity and Capital Resources

As of December 31, 2011, our current assets were $2,904,436, as compared to $4,193,281 at December 31, 2010. As of December 31, 2011, our current liabilities were $7,278,170, as compared to $5,078,580 at December 31, 2010. Operating activities used net cash of $420,953 for the year ended December 31, 2011, as compared to using net cash of $261,420 for the year ended December 31, 2010.

During the year ended December 31, 2011, investing activities provided net cash of $10,290, comprised primarily of cash acquired in connection with the Aero acquisition offset by purchases of property and equipment. During the year ended December 31, 2010, investing activities used net cash of $357,610.

During the year ended December 31, 2011, cash of $575,521 was provided by financing activities, consisting of proceeds from the issuance of convertible notes of $2,750,000, and the sale of common stock of $705,000. This was offset by repayment of notes payable to banks and shareholders of $2,729,115, and payment of deferred financing fees of $150,364, as compared to net cash provided by financing activities of $283,098 during the comparable twelve-month period ended December 31, 2010, which consisted of net advances from a shareholder of $375,321, offset by repayments of existing debt of $92,223.

Our net loss for the years ended December 31, 2011 and 2010, respectively was a loss of $5,457,310 and a loss of $319,813. We anticipate that we will continue to generate losses from operations for the foreseeable future as we invest in research and development activities in furtherance of our business plan of advancing our drug delivery technology. As of December 31, 2011, we had cash and cash equivalents of $416,333 and negative working capital of $4,373,734.

The increase in net loss of $5,137,497 between the year ended December 31, 2010 and the year ended December 31, 2011 largely is attributable to our goal of changing the business of the Company from a vacation real estate and rentals business to a OTC and cosmetic and beauty product manufacturer and the costs associated with purchasing the Aero assets and investing in research and development activities related to our drug delivery technology.

We are in the process of reviewing our contract manufacturing cost structure to identify inefficiencies and opportunities for reductions. Also, we are reviewing our sales efforts and programs to identify opportunities for increasing sales volume. We anticipate that these efforts will reduce or eliminate ongoing losses from our contract manufacturing business and allow us to continue contract manufacturing operations for the foreseeable future.

Our current balances of cash will not meet our working capital and capital expenditure needs for the next twelve months. Because we are not currently generating sufficient cash to fund our operations and we have debt that is in default, we may need to rely on external financing to meet future operating, debt repayment and capital requirements. Any projections of future cash needs and cash flows are subject to substantial uncertainty. We can make no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Further, if we issue equity securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences, or privileges senior to those of existing holders of common stock, and debt financing, if available, may involve restrictive covenants that could restrict our operations or finances. If we cannot raise funds, when needed, on acceptable terms, we may not be able to continue our operations, grow market share, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements, all of which could negatively impact our business, operating results, and financial condition. These conditions raise substantial doubt about our ability to continue as a going concern.

Off–Balance Sheet Arrangements

As of December 31, 2011, we had no material off-balance sheet arrangements other than operating leases.

Contractual Obligations

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of $200,000 each and the agreement with Mr. Oertle that provides for an annual salary of $150,000. Pursuant to the terms of the agreements, each of these executives is eligible to participate in the Company's long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board, subject to certain claw back rights. The agreements provide for payments of six months' severance in the event of early termination (other than for cause).

Impact of Inflation

The impact of inflation upon our revenue and income/(loss) from continuing operations during each of the past two fiscal years has not been material to our financial position or results of operations for those years because we do not maintain significant inventories whose costs are affected by inflation.

Properties

Our facilities are located in Pittsburg, California, Miami, Florida and Englewood Cliffs, New Jersey.

BioZone Labs manufactures its products in a 20,000 square feet, cGMP facility located at 580 Garcia Avenue, Pittsburg, CA 94565 owned by 580 Garcia Avenue, LLC, its consolidated VIE, and packs, fills, labels and stores its products at a 60,000 square foot rented facility located at 701 Willow Pass Road, Pittsburg, CA. The lease for the 580 Garcia Avenue facility expires in February 2029 and provides for monthly rental payments equal to all amounts due to the mortgage lender plus an additional monthly amount of $3500. The lease for the Willow Pass Road facility expires in July 2014 and provides for monthly rentals of approximately $28,610.

The Company believes Mr. Fisher directly or indirectly owns 580 Garcia Avenue, LLC. The 580 Garcia Avenue facility is encumbered by mortgage debt of approximately $2.6 million. BioZone Labs pays approximately $21,000 per month directly to the mortgage lender, which it treats as rent paid to 580 Garcia Avenue, LLC. The Company believes the property to be worth approximately $800,000, and that the lease payments for the 580 Garcia Avenue facility are substantially above the market price for similar facilities. In addition, Mr. Fisher claims the Company is indebted to 580 Garcia Avenue, LLC for loans in the aggregate principal amount of approximately $1.1 million, which Mr. Fisher claims are in default.

We lease approximately 1,500 square feet of office space at 4400 Biscayne Boulevard, Miami, Florida. We employ two sales professionals for our Baker Cummins brand proprietary skin care products, both of whom are located in Miami, Florida. The lease expires on October 31, 2012 and provides for monthly rentals of approximately $2,000.

In July 2011, we entered into a lease for approximately 3,869 square feet of laboratory space in Princeton, New Jersey where we conduct research and development activities related to our proprietary drug delivery technology. The lease expires on July 20, 2016. Rent expense is approximately $8,065 per month. In September 2012, the Company terminated research and development activities at this location, including personnel connected with such efforts and the Company's former consultant, Nian Wu, agreed to use his best efforts to assume such lease pursuant to the terms of his Separation Agreement.

Our corporate headquarters is located at 550 Sylvan Avenue, Englewood Cliffs, New Jersey, where we lease approximately 1,250 square feet of office space. The lease expires on June 30, 2013. Rent expense is approximately $2,250 per month.

Seasonality

Certain of our products include cough/cold remedies, which are often sold in the winter months. Accordingly, our business is cyclical. Approximately two thirds of our revenue is generated in the second half of the calendar year.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and related disclosures in the financial statements. Management considers an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made, and changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations or financial condition.

Basis of Consolidation

The consolidated financial statements include the accounts of BioZone Pharmaceuticals, Inc. and its subsidiaries, all of which are wholly owned, its equity investment in Betazone, Inc. and its 580 Garcia Ave. LLC, a Variable Interest Entity ("VIE").

The Company considered the terms of its interest in 580 Garcia and determined that it was a VIE in accordance with ACS 810-10-55, which should be consolidated. As of June 30, 2012, amounts included in the consolidated assets, which are shown in Property and equipment and consolidated liabilities, which are reported in long-term debt total $766,205 and $2,613,675, respectively relating to 580 Garcia. The Company's involvement with the entity is limited to the lease it has to rent its facility from 580 Garcia, in which the Company is the only tenant, and the guarantee of the mortgage on the property of 580 Garcia. The Company's maximum exposure to loss, which is based on the Company's guarantee of the mortgage of 580 Garcia is $2,613,675, which equals the carrying amount of its liability as of June 30, 2012.

The Company accounts for its investment in Betazone by the equity method since it has significant influence but not operating control over this entity. Condensed financial information of Betazone as of and the period ended June 30, 2012 and for the year ended December 31, 2011 is as follows:

	June 30, 2012	December 31, 2011
Balance sheet		
Current assets	31,843	110,093
Current Liabilities	226,869	131,672
Statement of operations		
Revenues	17,632	315,346
Net income (loss)	(169,922)	(102,047)

Revenue Recognition

BioZone Labs operates as a contract manufacturer and produces finished goods according to customer specifications. Equalan sells its merchandise directly to dermatologists, wholesalers, online retailers and consumers. Equachem operates as a reseller of pharmaceutical raw materials. The agreements with customers for each of the companies do not contain any rights of return other than for goods that fail to meet the specifications provided by the customer. None of the companies has experienced any significant returns from customers and accordingly, in management's opinion, no reserve for returns is provided. We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the selling price to the customer is fixed or determinable and collectability of the revenue is reasonably assured.

Revenue from the licensing of intellectual property, which is comprised of sales based royalties received from our licensee, is recorded when reported to us by the licensee. We are entitled to a royalty equal to a percentage of net sales by our licensee of products covered by valid patents that we own. Royalties are paid to us on a quarterly basis for sales occurring within that quarter as reported to us by the licensee within 30 days following the end of each quarter.

Convertible Instruments

We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 "Derivatives and Hedging Activities".

Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: We record when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. The embedded conversion option in connection with our convertible debt could not be exercised unless and until we completed a Qualifying Financing transaction. Accordingly, we determined based on authoritative guidance that the embedded conversion option is deemed to be a contingent conversion rather than active conversion option that did not require accounting recognition at the commitment dates of the issuances of the Notes.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 ("Contracts in Entity's Own Equity"). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative instruments were valued using the Black-Scholes option pricing model, using the following assumptions during the year ended December 31, 2011:

Estimated dividends	None
Expected volatility	100%
Risk-free interest rate	0.83%
Expected term	4.25 years

Research and Development

Research and development expenditures are charged to operations as incurred.

Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, “Income Taxes.” Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity’s financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that may have an impact on the Company’s accounting and reporting. The Company believes that such recently issued accounting pronouncements and other authoritative guidance for which the effective date is in the future either will not have an impact on its accounting or reporting or that such impact will not be material to its financial position, results of operations, and cash flows when implemented.

Seasonality

Many of our products include cough/cold remedies, which are often sold in the winter months. Accordingly, our business is cyclical. Approximately two thirds of our revenue is generated in the second half of the calendar year.

BUSINESS

Overview

Biozone Pharma, through its wholly owned subsidiary, BioZone Labs, is primarily engaged in the business of developing and manufacturing OTC drug products and skin care, cosmetic and beauty products on behalf of third parties. In addition, through its wholly owned subsidiaries, Equalan and Baker Cummins, the Company markets two lines of proprietary skin care products, under the brand names of Glyderm® and Baker Cummins®, respectively. The Company's other activities include the sale by its wholly owned subsidiary, Equachem, of raw materials used in OTC drugs and cosmetic products, and the research and development of certain proprietary drug delivery technology, designed to increase the benefit of various generic pharmaceutical products by improving stability, bioavailability or absorption. The sales by Equachem and, in particular, the research and development of our proprietary drug delivery technology ("DDT"), are not material to the Company's business, financial condition or results of operation. The DDT research and development activities are in an early stage, having commenced during the year ended December 31, 2011, and have yet to generate a delivery agent that has been tested in combination with any drug in animals or humans under testing standards required by the US Food and Drug Administration ("FDA") for submission for approval. In addition, more than 95% of the Company's annual revenue for the years ended December 31, 2011 and 2010 and investment in property plant and equipment is related to the Company's OTC drug product and skin care, cosmetic and beauty product manufacturing business. The Company generated $12.6 million and $15.3 million of sales during the years ended December 31, 2011 and 2010, respectively, of which $11.6 million or 92% and $13.6 million or 89%, respectively, were generated by BioZone Labs from its third party contract manufacturing business. The Company operates under a single segment.

The Company owns a 45% interest in BetaZone Laboratories LLC ("BetaZone") which is engaged in the development, sale and license of pharmaceutical and cosmetic products in Latin America. Equachem licenses the Company's proprietary QuSome® technology to BetaZone and other pharmaceutical manufacturers in exchange for sales based royalties. BetaZone has yet to pay any material royalties to Equachem as it has yet to generate any significant sales or license payments from products using our licensed technology. Royalties from other pharmaceutical manufacturers are approximately $400,000 per year and do not constitute a material component of our business.

BioZone Labs is registered with the FDA as a drug manufacturer. We manufacture OTC drug and cosmetic products in a 20,000 s.f., certified good manufacturing practice ("cGMP") facility located at 580 Garcia Avenue, Pittsburg, California. We fill, package, label and store these products at a 60,000 sq. ft. packaging and warehouse facility located at 701 Willow Pass Road, Pittsburg, California. We maintain a full range of high to moderate speed filling and packaging equipment, capable of filling jars, tubes, and bottles with creams, lotions, oral solutions and serums. We employ scientists and chemists for product development, processing and testing, and quality control & assurance professionals for monitoring compliance with government regulations and adherence to customer specifications. Primarily, our customers are United States regional and national distributors and retailers of healthcare products.

In January and November 2011 and August 2012, the FDA performed three separate GMP surveillance inspections of BioZone Labs' manufacturing facility and warehouse facilities in order to audit our compliance against 21CFR Part 210 and Part 211, Good Manufacturing Practices with respect to our OTC drug product manufacturing procedures. All three inspections were routine GMP surveillance audits and were not triggered by any specific event, nor were they related to a specific product. At the conclusion of each audit, the FDA inspectors issued Form 483 Notice of Observations. The FDA's observations related to maintenance of data derived from tests necessary to assure compliance with established specifications, our procedures for handling deviations from test procedures, standards for rejecting drug products failing to meet established specifications, maintenance of electronic records, accessibility of written records, and preparation of analytical laboratory documentation concurrent with performance, process validation and warehouse controls. We provided adequate and timely responses to the FDA findings and provided commitments and timelines for the remediation of the conditions cited by the FDA. The FDA classified the inspections as VAI, Voluntary Action Indicated, and no Warning Letters were issued, which demonstrates the adequacy of our responses. We expect to complete the remediation process by December 2012.

BioZone Pharma was incorporated as a Nevada corporation on December 4, 2006 under the name International Surf Resorts Inc. Its name was changed to BioZone Pharmaceuticals, Inc. on March 1, 2011. BioZone Labs was incorporated under the laws of the State of California on June 2, 1992. Equalan was formed as a limited liability company under the laws of the State of California on January 2, 2007. Equachem was formed as a limited liability company under the laws of the State of California on March 12, 2007 under the name Chemdyn, LLC. Its name was changed to Equachem, LLC on July 25, 2007. BetaZone was formed as a Florida limited liability company on November 7, 2006. Baker Cummins Corp. was incorporated under the laws of the State of Nevada on March 31, 2011.

Our principal executive offices are located at 550 Sylvan Avenue, Suite 101, Englewood Cliffs, NJ 07632. Our telephone number is (201) 608-5101.

We manufacture products to customer specifications. The following is a list of products that we manufacture:

OTC Products. Hair conditioners and shampoos for treatment of eczema and psoriasis; external analgesics; skin protectants; anti-fungal products; topical anesthetics; nasal sprays; wound care products; acne products; cough and cold products; anti-itch products; and skin lightening products. In general, these products are regulated by the FDA.

Skin Care, Cosmetic and Beauty Products. AHA and Beta Hydroxy products; instant firming serums; anti-aging products; body lotions; eye creams; moisture creams and lotions; facial scrubs; and facial masks. In general, these products are not regulated by the FDA.

Dietary Supplements. Vitamins, minerals and herbal remedies. In general, these products are not regulated by the FDA.

Other Business Activities – Proprietary Product Sales

BioZone Labs manufactures two proprietary brands of skin care products, Glyderm® and Baker Cummins®, which are sold by Equalan and Baker Cummins, respectively, to United States national wholesalers, ecommerce retailers such as Drugstore.com and Skinstore.com, physicians, who use and resell our products in their physician practices, and consumers who purchase our products over the internet.

We acquired the Glyderm line of anti-aging products from Valeant Pharmaceuticals Inc. in 2007. These products, which include glycolic acid peels and moisturizers, have been used by dermatologists for over 20 years in office procedures to treat acne, skin discolorations, removal of fine lines and wrinkles and skin resurfacing. The Glyderm brand consists of the following products:

Product Name	Indication or Target Market
Glycolic Acid Peels – 20% to 70%	Health care practioners for in office use to improve the texture and tone of the skin and clean out pores and help even out pigmentation and give the face a fresher appearance.
Glyderm Gentle Cleanser (0.2%)	pH balanced, soap-free, non-irritating formula, which may be used on sensitive skin.
Exfoliating Cream Series (5%)	Patients beginning the Glyderm program to help to minimize the appearance of pigmentation irregularities, maintain the results of the six-week office facial program and soften fine lines
Exfoliating Cream Plus Series (10%)	Patients who have successfully used the Exfoliating Cream Series (5%)
Exfoliating Cream Plus Series with Glycolic Acid (12%) and Salicylic Acid	Patients with dry skin who have successfully used the Glyderm Cream Plus (10%)
Exfoliate Lotion Series (5%)	Patients with normal skin to help to minimize the appearance of pigmentation irregularities, maintain the results of the six-week office facial program and soften fine lines
Exfoliate Lotion Plus (10%)	Patients who have successfully used the Exfoliate Lotion Series (5%)
Exfoliate Lotion Lite Series (5%)	Patients with normal to oily skin to help to minimize the appearance of pigmentation irregularities, maintain the results of the six-week office facial program and soften fine lines.
Exfoliate Lotion Lite Plus (10%)	Patients who have successfully used the Exfoliate Lotion Lite Series (5%)
Exfoliate Solution Series, Solution (5%)	Patients with oily, non-sensitive skin to help to minimize the appearance of pigmentation irregularities, maintain the results of the six-week office facial program and soften fine lines
Exfoliate Solution Plus (10%)	Patients who have successfully used the Exfoliate Solution Series, Solution (5%)
Exfoliate Solution Plus 12% – Combination of Glycolic and Salicylic acids	Patients who have successfully used the Exfoliate Solution Plus (10%)
Hydrotone Moisturizers (Without Glycolic Acid)	Patients with dry or mature skin to alleviate the appearance of dryness associated with exfoliation
Hydrotone Lite	Patients with normal to oily skin
Hydrotone Max	Patients with extremely dry or mature skin
Simply Sunscreen SPF 30	Paba free, UVA and UVB protection sunscreen for patients of all ages and skin types to help prevent sunburn
Glyderm Gentle Eye	Blend of antioxidants and vitamin K to help hydrate skin around the eyes and reduce the appearance of dark under-eye circles
All Climates Body Lotion (10%)	Fast-absorbing Glycolic 10% lotion for patients with all skin types for use in all climates and all seasons to alleviate the appearance of dryness
Gly Mist (0.1%)	Mineral water spray that contains Glycolic acid for patients with all skin types
Gly Masque (3%)	Combination of Glycolic esters and natural rare earth for patients with all skin types to make the skin feel invigorated and smooth
Intense C Serum PM – 7.5% L-Ascorbic Acid	Form of vitamin C suitable for topical application to provide antioxidant protection, defend against damaging UVA and UVB rays, and to contribute to collagen synthesis for patients with aging and mature skin types

We acquired the Baker Cummins line of proprietary scalp and skin care products from Aero in May 2011. These products, which include lotions and shampoos, have been recommended by dermatologists for over 20 years to treat commonly seen skin and scalp conditions. The Baker Cummins brand consists of the following products:

Product Name	Indication or Target Market
P&S Liquid	Treatment for symptoms of psoriasis and seborrhea dermatitis by helping to loosen and remove dried skin from the scalp.
P&S Shampoo	Specially formulated shampoo designed to remove residual P&S Liquid from the hair; contains salicylic acid to control recurrent flaking and scaling of the scalp associated with seborrheic dermatitis and psoriasis
Ultramide 25 Lotion and Ultra Mide-D	Skin lotions that soften and moisturize dry, rough, cracked and calloused skin. Ultramide 25 contains a stable 25% urea formulation
X-Seb T Pearl Shampoo and X-Seb T Plus Shampoo	Therapeutic tar shampoos that relieve itching, irritation, redness, flaking and scaling associated with dandruff, seborrheic dermatitis and psoriasis of the scalp.
Acquaderm Cream	Hypoallergenic, non-comedogenic and non-greasy concentrated facial formula that provides maximum moisturization of the skin

We employ two professionals in Pittsburg, California, and two professionals in Miami, Florida, who market and process orders for Glyderm and Baker Cummins products, respectively. We have no material major customers for these lines of products. Total Glyderm and Baker Cummins product sales for the year ended December 31, 2011 were approximately $914,000.

Other Business Activities – Raw Material Sales and Technology Licensing

Equachem sells raw materials containing our proprietary delivery agents that we refer to as QuSomes® to United States manufacturers of OTC drugs and cosmetics. Also, it licenses the right to use QuSomes® to certain OTC manufacturers and to BetaZone. Total Equachem sales and royalty revenue for the year ended December 31, 2011 was approximately $147,000.We have licensed the use of the QuSome technology to BetaZone, our 45% owned subsidiary, for application in certain products marketed and to be marketed in Mexico, Central America and South America, and for application in certain products marketed outside of countries in those regions. BetaZone has yet to pay us any material royalties as it has yet to generate any significant sales or license payments from products using our licensed technology

On February 24, 2012, BioZone Pharma, BioZone Labs, and Equachem (the "BZL Licensors") and OPKO Pharmaceuticals, LLC ("OPKO") entered into a Limited License Agreement pursuant to which OPKO acquired an exclusive license to the QuoSomes and EquaSomes™ drug delivery technology for use in ophthalmological indications and a non-exclusive license to such technology for all other indications. Pursuant to the Limited License Agreement, the Company shall pay 5% of Net Sales (as defined in the Limited License Agreement) of the Covered Products (as defined in the Limited License Agreement) to the BZL Licensors. The royalty term shall terminate on a country-by-country basis on the first date that such Covered Product ceases to be covered by a Valid Claim (as defined in the Limited License Agreement) in a country. Unless otherwise terminated, the Limited License Agreement shall remain in effect until the expiration of the last-to-expire patent within the BZL Patents (as defined in the Limited License Agreement). The BZL Licensors may terminate the license granted under the Limited License Agreement for cause upon written notice to OPKO and OPKO may terminate any licence granted to it by providing 90 days written notice to the BZL Licensors.

Research and Development

In the mid-1990s, we licensed a proprietary, patented, phospho lipid delivery technology for use in our contract manufacturing business. Subsequently we modified the lipid to enhance final product stability, ingredient penetration, ease of manufacture process, and reduction in manufacturing and raw material costs. We obtained three U.S. patents covering the composition of matter of the enhanced lipid and method of manufacturing the resulting lipid vesicle. We modified the lipid through removal of phosphate and PEGylation, which is the process of covalent attachment of polyethylene glycol polymer chains to another molecule, normally a drug or therapeutic protein.

We refer to the pegylated lipid (i.e., the lipid modified with the PEGylation process described above) used in dermatological products as QuSomes. Our Glyderm Specialty Product, Intense C Serum PM – 7.5% L-Ascorbic Acid, is formulated with QuSomes.

Recently, we developed a pegylated lipid, which we refer to as EquaSomes™, for use in combination with drugs administered by injection or infusion. In March 2011, we established a small scale research and lipid manufacturing facility in Princeton, New Jersey, to advance our efforts to formulate certain generic drug products with a combination of an active pharmaceutical ingredient and EquaSomes. We have yet to perform any human clinical studies with respect to any product candidate. Total research and development costs for the fiscal years ended December 31, 2011 and 2010 were $399,624 and $240,873, respectively.

In September 2012, we terminated research and development activities at this location, including personnel connected with such efforts and our former consultant. Dr. Nian Wu agreed to use his best efforts to assume the lease of the facility pursuant to the terms of his Separation Agreement.

Intellectual Property

The following table lists all patents and patent applications owned or controlled by the Company or any of its wholly owned subsidiaries. All of our granted patents expire 20 years from the filing date or effective date indicated in the table unless otherwise noted.

Patent Title	Patent or Application Number	Filing or Effective Date
Delivery of biologically active material in a liposomal formulation for administration into the mouth	5891465	April, 1999
Liposomal delivery by iontophoresis	6048545	April, 2000
Compounds and methods for inhibition of phospholipase A2 and cyclooxygenase-2	6495596	December, 2002
Self-forming, thermodynamically stable liposomes and their applications	6610322	August, 2003
Oral Liposomal Delivery System	6776924	April, 2004
Self-forming, thermodynamically stable liposomes and their applications	6958160	October, 2005
Compounds and methods for inhibition of phospholipase A2 and cyclooxygenase-2	6998421	February, 2006
Self-forming, thermodynamically stable liposomes and their applications	7150883	December, 2006
Self-forming, thermodynamically stable liposomes and their applications	7718190	May, 2010
Self-forming, thermodynamically stable liposomes and their applications - Japan	4497765	April, 2010
X-conazoles plus Qusomes		
EQUA-001 (regular application) "Enhanced Delivery of Antifungal Agents"	12/006,820	January, 2008
EQUA-001 PCT, "Enhanced Delivery of Antifungal Agents"	PCT/US2009/000003	January, 2009
EQUA-001 JP	PNLG	
EQUA-001 EP, KEMP (N.111618 JHS/eg)	9701160.5	January, 2009
EQUA-003 (P), "Enhanced Delivery of Antifungal Agents"	61/128,011	May, 2008
EQUA-012 (R)	12/454,387	May, 2009
Pure PEG-Lipid Conjugates		
EQUA-013	61/217,627	June, 2009
EQUA-017P	61/284,065	December, 2009
EQUA-024R	12/802,197	June, 2010
EQUA-024 PCT	PCT/US2010/001590	June, 2010
Cyclosporin formulation		
EQUA-016P	61/273,656	August, 2009
EQUA-025R	12/802,200	June, 2010
EQUA-025 PCT	PCT/US2010/001589	June, 2010
Rapamycin		
EQUA-018P	61/276,953	September, 2009
EQUA-027R - "Method of treatment with Rapamycin"	12/924,038	September, 2010
EQUA-027 PCT - "Pharmaceutical compositions of Rapamycin”	PCT/US2010/002547	September, 2010

Customers and Marketing

BioZone Labs sells products to more than 50 customers through sales professionals who market development, formulation and manufacturing services to potential customers. During the three months ended June 30, 2012, two customers accounted for approximately 31% and 26% of the Company's sales. During the year ended December 31, 2011, four customers accounted for approximately 30%, 9%, 8% and 7% of the Company's sales. If any of these customers discontinues or substantially reduces its purchases from us, it may have a material adverse effect on our business and financial condition. We believe that we have good relationships with our customers.

Generally, we satisfy customer orders on an individual purchase order basis and do not enter into manufacturing agreements. We have a manufacturing agreement with our largest customer, which provides, among other things, that we will be the exclusive manufacturer of the products described in the agreement for a specified term; the pricing for our manufacturing services, which is subject to change during the term, and provides for payment and allowances. The agreement has a three year term and provides for annual renewals. The agreement does not require the customer to purchase any specific volumes of our products.

Manufacturing

The primary raw materials used in making products for our contract manufacturing customers either are supplied by our customers or are readily available in large quantities from multiple sources. Similarly, the primary raw materials used in making our proprietary brand products are readily available in large quantities from multiple sources. We believe that our manufacturing facilities are cGMP compliant.

Growth Strategy

Our growth strategy for our contract manufacturing business is to increase sales by establishing a dedicated sales team with industry experience who will leverage our QuSome technology and our expertise in product development and formulation to attract new contract manufacturing customers. Our growth strategy for our proprietary brand business is to hire dedicated salespeople who will introduce our proprietary brand products to regional and national wholesalers, retailers and physicians for resale in their offices.

Competition

The market for contract manufacturing services is highly competitive and price sensitive and gross margins are low. Our direct competition consists of numerous contract manufacturers, including Perrigo Company (Nasdaq:PRGO), many of which have greater financial and other resources than we do. If one or more other OTC contract manufacturers significantly reduce their prices in an effort to gain market share, our gross revenue, profitability or market position could be adversely affected.

The market for OTC health care products is highly competitive and promotion sensitive. Our direct competition consists of numerous drug manufacturers and marketers, many of which have greater financial and other resources than we do. If one or more other pharmaceutical manufacturers significantly reduce their prices or significantly increase their promotional activity in an effort to gain market share, our gross revenue from sales of proprietary health care products, profitability or market position could be adversely affected.

Government Regulation

The manufacturing, processing, formulation, packaging, labeling, testing, storing, distributing, advertising and sale of our products are subject to regulation by one or more U.S. agencies, including the FDA, the Consumer Product Safety Commission ("CPSC"), Federal Trade Commission ("FTC"), as well as several foreign, state and local agencies in localities in which our products are sold. In addition, we manufacture and market certain of our products in accordance with standards set by organizations, such as the United States Pharmacopeial Convention, Inc. ("USP"). We believe that our policies, operations and products comply in all material respects with existing regulations.

U.S. Food and Drug Administration

The FDA has jurisdiction over our OTC drug products and dietary supplements. The FDA's jurisdiction extends to the manufacturing, testing, labeling, packaging, storage and distribution of these products.

In general, OTC medicines are marketed under regulations referred to as "OTC monographs", which have been established through the FDA's OTC review procedures. Under the OTC monograph system, selected OTC drugs are generally recognized as safe and effective and do not require the submission and approval of a New Drug Application ("NDA") or an Abbreviated New Drug Application ("ANDA") prior to marketing. The OTC monograph specifies allowable combinations of ingredients and dosage levels, permitted indications, and required warnings and precautions. Drug products marketed under the OTC monograph system must conform to specific quality and labeling requirements.

The OTC monograph regulations related to the OTC products that we manufacture may change from time to time, requiring formulation, packaging or labeling changes for certain products. We cannot predict whether new legislation regulating our activities will be enacted or what effect any legislation would have on our business.

All facilities where OTC drugs are manufactured, tested, packaged, stored or distributed must comply with FDA cGMPs. All of our OTC drug products are manufactured, tested, packaged, stored and distributed according to cGMP regulations. The FDA performs periodic audits to ensure that our facilities remain in compliance with appropriate regulations. The failure of our facility to be in compliance may lead to regulatory action against us that could result in the suspension of production or distribution of our products, product seizures, loss of certain licenses or other governmental penalties, and could have a material adverse effect on our financial condition or operating results. In addition, new legislation regulating our activities could be enacted with a negative impact on our business.

Consumer Product Safety Commission

The packaging of certain our products is subject to regulation under the Poison Prevention Packaging Act ("PPPA"), pursuant to which the CPSC has authority to require dietary supplements and pharmaceuticals to be packaged in child-resistant packaging to help reduce the incidence of accidental poisonings. The CPSC has published regulations requiring iron-containing dietary supplements and numerous pharmaceuticals to have child resistant packaging, and has established rules for testing the effectiveness of child-resistant packaging and for ensuring senior adult effectiveness.

The Consumer Product Safety Improvement Act of 2008 amended the Consumer Product Safety Act (CPSA) to require that the manufacturer of any product that is subject to any CPSC rule, ban, standard or regulation certify that the product complies with such requirements based on a reasonable testing program. This certification applies to pharmaceuticals and dietary supplements that require child-resistant packaging under the PPPA. We rely on the manufacturer of our packaging supplies for compliance with such requirements.

Federal Trade Commission

The FTC exercises primary jurisdiction over the advertising and other promotional practices of marketers of OTC pharmaceuticals and dietary supplements and often works with the FDA regarding these practices. The FTC considers whether a product's claims are substantiated, truthful and not misleading. The FTC is also responsible for reviewing mergers between and acquisitions of pharmaceutical companies exceeding specified thresholds and investigating certain business practices relevant to the healthcare industry. The FTC could challenge these business practices in administrative or judicial proceedings. Although we do not market or advertise any OTC pharmaceuticals and dietary supplements, we are responsible for the accuracy of the claims made on the labels of products that we manufacture.

State Regulation

We are subject to state laws that regulate foods and drugs under laws that generally parallel federal statutes. Also, we are subject to state consumer health and safety regulations. Failure to comply with these laws and regulations could have a significant negative impact on our business.

United States Pharmacopeial Convention

The USP is a non-governmental, standard-setting organization. By reference, the Federal Food, Drug and Cosmetic Act incorporates the USP quality and testing standards and monographs as the standards that must be met for the listed drugs, unless compliance with those standards is specifically disclaimed on the product's labeling. USP standards exist for most Rx and OTC pharmaceuticals and many nutritional supplements. The FDA typically requires USP compliance as part of cGMP compliance.

Product Liability

We may be subject to product liability claims by consumers of our products. We maintain product liability insurance policies which provide coverage in the amount $5 million per occurrence and $5 million in the aggregate. A product liability claim, if successful and in excess of our insurance coverage, could have a material adverse effect on our financial condition.

Seasonality

Many of our products include cough/cold remedies, which are often sold in the winter months. Accordingly, our business is cyclical. Approximately 80% to 85% of our revenue is generated in the first three quarters of the calendar year.

Properties

Our facilities are located in Pittsburg, California, Miami, Florida and Englewood Cliffs, New Jersey.

BioZone Labs manufactures its products in a 20,000 square feet, cGMP facility located at 580 Garcia Avenue, Pittsburg, CA 94565 owned by 580 Garcia Avenue, LLC, its consolidated VIE, and packs, fills, labels and stores its products at a 60,000 square foot rented facility located at 701 Willow Pass Road, Pittsburg, CA. The lease for the 580 Garcia Avenue facility expires in February 2029 and provides for monthly rental payments equal to all amounts due to the mortgage lender plus an additional monthly amount of $3500. The lease for the Willow Pass Road facility expires in July 2014 and provides for monthly rentals of approximately $28,610.

The Company believes Mr. Fisher directly or indirectly owns 580 Garcia Avenue, LLC. The 580 Garcia Avenue facility is encumbered by mortgage debt of approximately $2.6 million. BioZone Labs pays approximately $21,000 per month directly to the mortgage lender, which it treats as rent paid to 580 Garcia Avenue, LLC. The Company believes the property to be worth approximately $800,000, and that the lease payments for the 580 Garcia Avenue facility are substantially above the market price for similar facilities. In addition, Mr. Fisher claims the Company is indebted to 580 Garcia Avenue, LLC for loans in the aggregate principal amount of approximately $1.1 million, which Mr. Fisher claims are in default.

We lease approximately 1,500 square feet of office space at 4400 Biscayne Boulevard, Miami, Florida. We employ two sales professionals for our Baker Cummins brand proprietary skin care products, both of whom are located in Miami, Florida. The lease expires on October 31, 2012 and provides for monthly rentals of approximately $2,000.

In July 2011, we entered into a lease for approximately 3,869 square feet of laboratory space in Princeton, New Jersey where we conduct research and development activities related to our proprietary drug delivery technology. The lease expires on July 20, 2016. Rent expense is approximately $8,065 per month. In September 2012, the Company terminated research and development activities at this location, including personnel connected with such efforts and the Company's former consultant, Nian Wu, agreed to use his best efforts to assume such lease pursuant to the terms of his Separation Agreement.

Our corporate headquarters is located at 550 Sylvan Avenue, Englewood Cliffs, New Jersey, where we lease approximately 1,250 square feet of office space. The lease expires on June 30, 2013. Rent expense is approximately $2,250 per month.

Our rent expense for our Miami facility is as follows:

	Monthly	**Yearly**
Nov 1, 2009 - Oct 31, 2010	$1,928	$23,132
Nov 1, 2010- Oct 31, 2011	$1,995	$23,941
Nov 1, 2011 - Oct 31, 2012	$2,064	$24,779

Employees

We currently employ 82 full time and 99 seasonal employees at our Pittsburg, California facilities, two employees in Englewood Cliffs, New Jersey, one of whom is Mr. Maza, and two employees in Miami, Florida. These employees perform various manufacturing, sales, marketing, research and development, and administration functions. We believe that our relations with our employees are good.

Legal Proceedings

Except as set forth below, we are not involved in any pending legal proceeding or litigation that could have a material impact upon our business or results of operations. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business or results of operations.

Aphena Pharma Solutions – Maryland, LLC f/k/a Celeste Contract Packaging, LLC, v. BioZone Laboratories, Inc. and BioZone Pharmaceuticals, Inc. and Daniel Fisher

District Court for the District of Maryland Northern Division; Case 1:12-cv-00852-WDQ

An action was commenced on March 19, 2012 against BioZone Labs, BioZone Pharma and a former officer and director Daniel Fisher in the United States District Court for the District of Maryland. The plaintiff alleges breach of contract and other commercial wrongdoing and seeks damages in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. The Company refutes the allegations and intends to vigorously defend against this action.

Daniel Fisher v. BioZone Pharmaceuticals, Inc., Elliot Maza, Brauser Honig Frost Group, Michael Brauser, Barry Honig, and The Frost Group LLC

United States District Court, Northern District of California, No. 12-03716

On July 16, 2012, Daniel Fisher ("Fisher"), a former officer and director of the Company, commenced an action in the United States District Court for the Northern District of California against certain the Company and certain officers and investors thereof. Fisher asserts claims for breach of contract, conversion, wrongful termination, and unjust enrichment, and violation of the federal whistleblower statute arising from his former role as an officer and director of the Company and certain contractual agreements that he entered into with the Company. Fisher seeks $23 million in damages as against all defendants.

The Company disputes Fisher's allegations, intends to vigorously defend them and has filed an action against Fisher in New York described below.

BioZone Pharmaceuticals, Inc. v. Daniel Fisher and 580 Garcia Properties, LLC

Supreme Court of the State of New York, County of New York, No. 652489/2012

On July 18, 2012, the Company commenced an action in New York State Court against Fisher and 580 Garcia Properties, LLC alleging breach of contract, breach of fiduciary duty, negligence, and fraud claims arising from Fisher's former role as an officer and director of the Company. The Company is seeking a minimum of $2 million in damages, together with the cancellation of 6.65 million shares of the Company's stock, and Fisher's forfeiture of property located at 580 Garcia Avenue, Pittsburg, CA, which property is used by the Company as a warehouse facility.

MANAGEMENT

The following persons are our executive officers and directors and hold the positions set forth opposite their respective names.

EXECUTIVE OFFICERS AND DIRECTORS

Name	Age	Position
Roberto Prego-Novo	68	Chairman
Elliot M. Maza	57	Chief Executive Officer, Chief Financial Officer and Secretary and Director
Brian Keller	56	President, Chief Scientific Officer and Director
Christian Oertle	40	Chief Operating Officer

Roberto Prego-Novo, Chairman. Mr. Prego-Novo was appointed to our board of directors and as our President, Principal Accounting Officer and Secretary on February 24, 2011. Mr. Prego-Novo resigned from all executive positions with us and was appointed as our Chairman on June 30, 2011. Since 1974, Mr. Novo has served as the President of Laboratorios Elmor S.A., a Venezuelan pharmaceutical company. Mr. Novo served as the Vice President, Latin America, of Teva Pharmaceutical Industries Limited from 2006 to 2010 and as the Vice President, Latin America, of IVAX Corporation from 2006 to 2008. Mr. Prego-Novo served as our President and Principal Accounting Officer from February 24, 2011 to June 30, 2011. Mr. Prego-Novo was chosen to be a director based on his extensive pharmaceutical industry experience. We believe Mr. Prego-Novo's qualifications to serve as our chairman include his years of experience as an executive of large pharmaceutical companies, in particular at Teva Pharmaceutical Industries Limited, one of the five largest manufacturers of generic pharmaceutical products in the world. We expect that Mr. Prego-Novo will be able to draw on his knowledge of the generic pharmaceuticals industry to help us develop our branded generic pharmaceutical business.

Elliot M. Maza, J.D., C.P.A. (Inactive), Chief Executive Officer, Chief Financial Officer, Secretary and Director. Elliot Maza serves as our Chief Executive Officer, Chief Financial Officer and Secretary. Mr. Maza was appointed as our Interim Chief Executive Officer, Chief Financial Officer and Secretary on May 16, 2011. Mr. Maza was appointed as our Chief Executive Officer on August 2, 2011. On February 24, 2012, the Board of Directors of the Company appointed Elliot Maza as a director of the Company. From May 2006 until the present time, Mr. Maza has served in several management positions at Intellect Neurosciences, Inc., a development stage biotechnology company focused on the development of therapeutics for Alzheimer's disease. Mr. Maza served as the Executive Vice President of Intellect Neurosciences, Inc. from May 2006 to March 2007, as President from March 2007 until October 2011, and as Chief Financial Officer from May 2006 through the present time. Mr. Maza was also appointed to the board of directors of Intellect Neurosciences, Inc. on June 26, 2007. From December 2003 to May 2006, Mr. Maza served as Chief Financial Officer of Emisphere Technologies, Inc., a biopharmaceutical company specializing in oral drug delivery. He was a partner at Ernst and Young, LLP from March 1999 to December 2003. During the period from May 1989 to March 1999, Mr. Maza served as an Associate and subsequently Vice President in the Fixed Income divisions of Goldman Sachs, Inc. and JP Morgan Securities, Inc. Mr. Maza practiced tax and corporate law at Sullivan and Cromwell in New York from September 1985 to April 1989. Mr. Maza has served on the Board of Directors and as Chairman of the Audit Committee of several biotech and pharmaceutical companies. Mr. Maza received his B.A. degree from Touro College in New York and his J.D. degree from the University of Pennsylvania Law School. Mr. Maza was appointed as a director of the Company based on his experience as a senior executive in several biotech and biopharma companies and his positions as chief executive officer and chief financial officer of the Company.

Brian Keller, Pharm.D., President, Chief Scientific Officer and Director. Dr. Keller has served as our President, Chief Scientific Officer and Director on June 30, 2011. Dr. Keller co-founded BioZone Laboratories, Inc. with Mr. Daniel Fisher in 1989, and has served as its Executive Vice President and Chief Scientific Officer since that time. Dr. Keller is the inventor of the Company's QuSomes, LiquaVail, and HyperSorb technology. Dr. Keller graduated from University of California, San Diego, in 1979 with a BS in biology, and received his doctorate in pharmacy from University of California, San Francisco, in 1983. Dr. Keller is a registered pharmacist. We believe Dr. Keller's qualifications to serve as a director include his management and industry experience gained as the co-founder of BioZone Laboratories, Inc., one of our subsidiaries, as well as his general scientific knowledge.

Christian Oertle, Chief Operating Officer. Mr. Oertle has served as our Chief Operating Officer since June 30, 2011. From May 2003 until the present time, Mr. Oertle has served as the General Manager of BioZone Laboratories, Inc. From May 2000 to May 2003, Mr. Oertle served as the Director of Product Research and Development for BioZone Laboratories, Inc. Prior to May 2000 Mr. Oertle worked as a formulation chemist at BioZone Laboratories, Inc; Bertek Pharmaceuticals, a division of Mylan Laboratories (formerly Penederm Incorporated); and Alza Corporation. Mr. Oertle holds a Bachelors of Science Degree in Chemistry from University of California at Davis.

Family Relationships

There are no family relationships between the officers and directors listed above.

Employment Agreements

On June 30, 2011, we entered into an employment agreement with Dr. Keller pursuant to which Dr. Keller will serve as our President and Chief Scientific Officer for a period of three years in consideration for an annual salary of $200,000. Pursuant to the terms of his employment agreement, Dr. Keller shall be eligible to participate in the Company's long term incentive compensation programs and shall be entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Board and subject to certain claw back rights.

In the event Dr. Keller's employment is terminated due to his death or disability, his estate or his beneficiaries, as the case may be, shall be entitled to earned and unpaid base salary through the date of death or date of termination of his employment and all accrued and unpaid vacation time and all other additional benefits then due or earned in accordance with the Company's applicable plans and programs. In the event the Company terminates Dr. Keller's employment for cause, he shall be entitled to earned and unpaid base salary through the termination date and all accrued and unpaid vacation time and all other additional benefits then due or earned in accordance with the Company's applicable plans or programs. In the event Dr. Keller's employment is terminated without cause, other than due to Dr. Keller's death or disability, Dr. Keller shall be entitled to i) earned and unpaid base salary through the termination date, ii) the sum of his base salary, at the annualized rate in effect on the termination date (or, in the event a reduction in base salary is a basis for a termination by Dr. Keller for good reason, then the base salary in effect immediately prior to such reduction) divided by 12, and which such monthly payments are to be paid to Dr. Keller for a period of 6 months but not to extend beyond the last day of his employment period (the "Severance Period"), iii) any outstanding stock options or shares of restricted stock which are unvested shall vest and Dr. Keller shall have the right to exercise any vested stock options during the Severance Period or for the remainder of the exercise period, iv) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of the end of the Severance Period or the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer and (v) all accrued and unpaid vacation and all other additional benefits then due or earned in accordance with the Company's applicable plans or programs. Upon termination of Dr. Keller's employment, he shall not be entitled to any severance payments or severance benefits from the Company or any payments by the Company on account of any claim by him of wrongful termination, including claims under any federal, state or local human and civil rights or labor laws, other than the payments and benefits provided in the employment agreement.

On June 30, 2011, we entered into an employment agreement with Christian Oertle pursuant to which Mr. Oertle will serve as our Chief Operating Officer for a period of three years in consideration for an annual salary of $150,000. Pursuant to the terms of his employment agreement, Mr. Oertle shall be eligible to participate in the Company's long term incentive compensation programs and shall be entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Board which shall be subject to certain claw back rights. Mr. Oertle's employment agreement has the same termination and severance provisions as Dr. Keller's employment agreement.

On June 30, 2011, we entered into an employment agreement with Daniel Fisher, formerly Executive Vice President and Director of the Company, pursuant to which Mr. Fisher was to serve as our Executive Vice President for a period of three years in consideration for an annual salary of $200,000 and would be eligible to participate in the Company's long term incentive compensation programs and be entitled to an annual bonus if the Company met or exceeded criteria adopted by the Board, subject to certain claw back rights. Mr. Fisher's employment agreement had the same termination and severance provisions as Dr. Keller's agreement and Mr. Oertle's agreement. On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President for cause. Pursuant to his employment agreement, Mr. Fisher is entitled to accrued salary through the date of termination. We have paid Mr. Fisher $35,000 towards the amounts due him under his employment agreement and the remaining balance is $16,333. Mr. Fisher has claimed approximately $56,000 in unpaid salary and vacation pay and delivery to him of 6,650,000 shares of the Company's common stock.

Involvement in Certain Legal Proceedings

Our directors and executive officers were not involved in any legal proceedings as described in Item 401(f) of Regulation S-K in the past ten years except as set forth in the section entitled "Legal Proceedings" herein.

Directors' and Officers' Liability Insurance

The Company has obtained directors' and officers' liability insurance insuring its directors and officers against liability for acts or omissions in their capacities as directors or officers. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, the Company may enter into indemnification agreements with key officers and directors and such persons shall also have indemnification rights under applicable laws, and the Company's Articles of Incorporation and Bylaws.

Board Independence

We currently have three directors serving on our Board of Directors: Mr. Prego Novo, Mr. Maza and Dr. Keller. We are not listed on a national securities exchange and are not subject to any director independence standards. Using the definition of independence set forth in the rules of the NYSE MKT LLC, none of Mr. Novo, Mr. Maza and Dr. Keller would be considered an independent director of the Company.

Meetings and Committees of the Board of Directors

Our Board of Directors held one formal meeting during the fiscal year ended December 31, 2011 and did not hold any formal meetings during the fiscal year ended December 31, 2010.

We currently do not maintain any committees of the Board of Directors. Given our size and the development of our business to date, we believe that the board through its meetings can perform all of the duties and responsibilities which might be contemplated by a committee.

Except as may be provided in our bylaws, we do not currently have specified procedures in place pursuant to which security holders may recommend nominees to the Board of Directors.

Board Leadership Structure and Role in Risk Oversight

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have traditionally determined that it is in the best interests of the Company and its shareholders to separate these roles because it allows us to separate the strategic and oversight roles within our board structure.

Our Board of Directors is primarily responsible for overseeing our risk management processes. The Board of Directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our company's assessment of risks. The Board of Directors focuses on the most significant risks facing our company and our company's general risk management strategy, and also ensures that risks undertaken by our company are consistent with the Board's appetite for risk. While the Board oversees our company, our company's management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our company and that our Board leadership structure supports this approach.

Code of Ethics

We have not yet adopted a Code of Ethics although we expect to as we develop our infrastructure and business.

EXECUTIVE COMPENSATION

Summary Compensation Table

The table below sets forth, for the last two fiscal years, the compensation earned by the executive officers listed below. No other executive officers had annual compensation in excess of $100,000 during the last fiscal year.

Name and Principal Position	Year Ended	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($) (1)	Total ($)
Elliot Maza (2)	2010	0	0	0	0	0	0	0
	2011	38,462	0	0	0	0	0	38,462
Brian Keller (3)	2010	100,000	0	0	0	0	24,771	124,771
	2011	100,000					35,712	135,712
Daniel Fisher (4)	2010	112,000	0	0	0	3,360 (5)	35,149	150,509
	2011	112,000	0	0	0	0	44,702	156,702
Christian Oertle (6)	2010	100,000	0	0	0	0	5,498	105,498
	2011	100,000	0	0	0	0	4,223	104,223

Roberto Prego-Novo (7)	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Eduardo Biancardi President, Secretary, CFO (8)	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Timothy Neely, Chief Operating Officer (9)	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0

(1) The compensation amount set forth represents reimbursement of medical and dental insurance, life insurance, and auto expenses.

(2) Appointed as Interim Chief Executive Officer, Chief Financial Officer and Secretary on May 16, 2011, and appointed as Chief Executive Officer on August 2, 2011.

(3) Appointed as President and Chief Scientific Officer on June 30, 2011.

(4) Appointed as Executive Vice President on June 30, 2011. Removed from his position as Executive Vice President on January 30, 2012 and resigned from his position as Director on February 3, 2012.

(5) The compensation amount set forth represents Company contributions to Mr. Fisher's IRA account.

(6) Appointed as Chief Operating Officer on June 30, 2011.

(7) Appointed as President on February 24, 2011. Resigned from all officer positions and appointed as Chairman of the Board of Directors on June 30, 2011.

(8) Resigned from all positions on February 24, 2011.

(9) Resigned from all positions on February 22, 2011.

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding equity awards issued to our named executive officers as of December 31, 2011.

Director Compensation

The Company does not have any compensation arrangements for members of its Board of Directors.

Stock Incentive Plan

As of December 31, 2011, the Company had not adopted a stock incentive plan.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Except as described below, during the past three years, there have been no transactions, whether directly or indirectly, between the Company and any of its officers, directors or their family members, that exceeded the lesser of $120,000 or 1% of the Company's total assets at year end for the last two completed fiscal years.

We manufacture our products in a 20,000 s.f., cGMP manufacturing and laboratory facility located at 580 Garcia Avenue, Pittsburg, CA, which we rent from 580 Garcia Properties, LLC, a related company which has been determined to be a variable interest entity and has been consolidated into the financial statements. The Company believes Mr. Fisher, our former director and Executive Vice President, directly or indirectly owns 580 Garcia Avenue, LLC. The 580 Garcia Avenue facility is encumbered by mortgage debt of approximately $2.6 million. BioZone Labs pays approximately $21,000 per month directly to the mortgage lender, which it treats as rent paid to 580 Garcia Avenue, LLC. The Company believes the property to be worth approximately $800,000, and that the lease payments for the 580 Garcia Avenue facility are substantially above the market price for similar facilities. In addition, Mr. Fisher claims the Company is indebted to 580 Garcia Avenue, LLC for loans in the aggregate principal amount of approximately $1.1 million, which Mr. Fisher claims are in default. We paid $291,528 in rent each year for the years ended December 31, 2011 and 2010.

Phillip Frost, M.D., through Frost Gamma Investments Trust, beneficially owned approximately 46% of Aero's issued and outstanding capital stock, Roberto Prego-Novo, our Chairman, owned approximately 23% of Aero's issued and outstanding capital stock through Olyrca Trust. Each of Dr. Frost and Mr. Prego-Novo beneficially owned approximately 10.63% and 4.62%, respectively (excluding, with respect to Mr. Prego-Novo, 1,000,000 shares of which he disclaims ownership), of our issued and outstanding capital stock following the Asset Purchase. Dr. Frost acquired a portion of his shares in February and March, 2011 for approximately $0.027 per share, while the remainders of his shares were acquired through the cashless exercise of warrants he acquired through his purchase of a convertible promissory note in June 2012. Mr. Prego-Novo acquired a portion of his shares in March 2011 for approximately $0.03 per share, while the remainder were acquired through the cashless exercise of warrants he acquired through his purchase of a convertible promissory note in April 2012. These prices were negotiated at arm's length when we had no viable business and prior to the acquisition of Aero and prior to a final letter of intent with BioZone Laboratories shareholders.

On February 24, 2012, we entered into a securities purchase agreement with Opko Health, Inc., pursuant to which we sold (i) a $1,700,000 10% secured convertible promissory note due two years from the date of issuance and (ii) ten year warrants to purchase 8,500,000 shares of our common stock at an exercise price of $0.40 per share for gross proceeds to us of $1,700,000. The warrants may be exercised on a cashless basis commencing on the issue date. Dr. Philip Frost, the trustee of the Frost Gamma Investments Trust, a holder of 6.07% of our issued and outstanding common stock, is the Chairman and Chief Executive Officer of Opko Health, Inc. On February 28, 2012 and February 29, 2012, we sold an additional $600,000 of notes and issued warrants on the same terms to purchase an additional 3,000,000 shares of our common stock to additional buyers for gross proceeds to us of $600,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

Also on February 24, 2012, BioZone Pharma, BioZone Labs, and Equachem (the "BZL Licensors") and OPKO entered into a Limited License Agreement pursuant to which OPKO acquired an exclusive license to the QuoSomes and EquaSomes™ drug delivery technology for use in ophthalmological indications and a non-exclusive license to such technology for all other indications. Also, on February 24, 2012, BioZone Pharma and OPKO entered into a Distribution Agreement pursuant to which BioZone Pharma appointed OPKO as its exclusive distributor of any drug product containing propofol as an active ingredient in combination with a compound developed by BioZone Labs based on its EquaSomes technology. Frost Gamma Investments Trust is one of our significant shareholders. Dr. Philip Frost is the trustee of Frost Gamma Investments Trust and the Chief Executive Officer of OPKO. The Distribution Agreement was effectively terminated as a result of the Separation Agreement executed between Nian Wu and the Company which, among other things, terminated that certain License Agreement between Mr. Wu and the Company, which provided for the distribution rights granted to OPKO, as further described below.

On February 28, 2012, the Company sold a $100,000 note and issued warrants to purchase 500,000 shares of the Company's common stock to Robert Prego-Novo, Chairman of our Board of Directors. The warrants have an exercise price of $0.40 per share.

Santana Martinez, one of our former directors, previously provided office space to us at no charge. Our financial statements reflect, as occupancy costs, the fair market value of that space, which is approximately $150 per month. We treated the usage of the office space as additional paid-in capital and charged the estimated fair value rent of $150 per month to operations. We recorded total rent expense of $1,800 for the year ended December 31, 2010 and total rent expense of $1,800 for the year ended December 31, 2009.

As part of our regular business operations, BioZone Labs purchases raw material ingredients from Equachem and sells finished products to Equalan. The financial statement impact of these intercompany sales and purchases is eliminated in consolidation. Purchases by BioZone Labs from Equachem were approximately $209,000 and $158,000 for the years ended December 31, 2010 and 2009, respectively. Sales by BioZone Labs to Equalan were approximately $190,000 and $188,000 for the years ended December 31, 2010 and 2009, respectively.

The Company entered into a Separation and Release Agreement with Nian Wu, a consultant to the Company and holder a 6,650,000 shares of the Company's common stock. Under the terms of the Separation Agreement, the parties agreed to terminate the License Agreement dated as of February 12, 2012, granting the Company the right to utilize certain of Mr. Wu's patents relating to "Sugar Lipid Technology" for the potential commercial formulation of Propofol, and the distribution rights granted by the Company to Opko Health, Inc. Mr. Wu also tendered for cancellation 6,650,000 shares of the Company's common stock issued in connection with the acquisition of certain patent rights from Biozone Laboratories, Inc. and affiliates in June 2011. As a result of the foregoing, the Company terminated its research and development activities, including personnel connected with such efforts, in Princeton New Jersey and Mr. Wu agreed to use his best efforts to assume the Company's lease. The Separation Agreement became effective on September 20, 2012 upon acceptance by Opko Health, Inc.

On September 20, 2012, the Company also entered into a Limited License Agreement pursuant to which the Company granted Mr. Wu a limited non-exclusive worldwide license to certain of its patents, originally co-invented by Mr. Wu and assigned to the Company. Under the terms of the Limited License Agreement, each of the Company and Mr. Wu agreed to pay the other a royalty equal to 5% of their respective quarterly net sales of Covered Products (defined as any pharmaceutical preparation or formulation where the manufacture, use, sale, offer for sale, license or assignment thereof relies in whole or in party on any of the patents licensed under the Limited License Agreement) that rely on any Valid Claims (as defined in the Limited License Agreement). Additionally, each of the Company and Mr. Wu agreed to pay the other 50% of all fees or other payments (including all milestones, upfront payments or advances, but excluding royalties on net sales or funding or reimbursement costs of research and development activities) in consideration for any rights granted under a sublicense of the patents assigned under the Limited License Agreement. The Limited License Agreement is effective until the expiration of the last to expire licensed patents unless sooner terminated pursuant to the terms of the License Agreement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth certain information as of September 28, 2012 regarding the beneficial ownership of our common stock, by (i) each person or entity who, to our knowledge, owns more than 5% of our common stock; (ii) our executive officers; (iii) each director; and (iv) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power and that person's address is c/o BioZone Pharmaceuticals, Inc., 550 Sylvan Avenue, Suite 101, Englewood Cliffs, NJ 07632. Shares of common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of September 28, 2012, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the stockholder holding such options, warrants or other rights, but are not deemed outstanding for computing the percentage of any other stockholder.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned (1)
5% Owners:		
Aero Liquidating Trust (2) 4400 Biscayne Boulevard Miami, Florida 33137	8,345,310	13.11%
OPKO Health, Inc. 4400 Biscayne Boulevard Miami, Florida 33137	7,650,000 (3)	12.02%
Daniel Fisher 36 Marlee Road Pleasant Hill, CA 94523	6,650,000	10.45%
Frost Gamma Investments Trust (4) 4400 Biscayne Boulevard Miami, Florida 33137	6,765,170 (5)	10.63%
Michael Brauser 3700 NE 27th Ave. Lighthouse Point, Florida 33064	4,879,377 (6)	7.67%
Barry Honig 4400 Biscayne Boulevard, Miami, FL 33137	3,587,249 (7)	5.64%
Executive Officers and Directors		
Brian Keller	3,587,500	5.64%
Christian Oertle	525,000	0.82%
Elliot Maza	3,587,500	5.64%
Roberto Prego-Novo	2,939,467 (8)	4.62%
All executive officers and directors as a group (4 persons)	10,639,467	16.72%

1) Based on 63,642,969 shares of our common stock issued and outstanding as of September 28, 2012.

2) James Martin is the trustee of the Aero Liquidating Trust and has sole voting and investment control over the securities held by Aero Liquidating Trust.

3) Excludes 8,500,000 shares of common stock underlying a promissory note issued to OPKO Health, Inc. The note can be converted at $0.20 per share and contains a blocker provision which provides that the note can only be converted such that where the holder would beneficially own a maximum of 4.99% of our outstanding common stock. Dr. Frost is the Chief Executive Officer of OPKO Health Inc. and in such capacity holds voting and dispositive power of such shares held by OPKO Health Inc.

4) Dr. Phillip Frost is the trustee of Frost Gamma Investments Trust and in such capacity has sole voting and investment control over the securities held by Frost Gamma Investments Trust. Frost Gamma Limited Partnership is the sole and exclusive beneficiary of Frost Gamma Investments Trust. Dr. Phillip Frost is one of two limited partners of Frost Gamma Limited Partnership. The general partner of Frost Gamma Limited Partnership is Frost Gamma, Inc., and the sole shareholder of Frost Gamma, Inc. is Frost-Nevada Corporation. Dr. Phillip Frost is also the sole shareholder of Frost-Nevada Corporation.

5) Excludes 1,776,370 shares of common stock underlying a promissory note issued to Frost Gamma Investments Trust. The note can be converted at $0.20 per share and contains a blocker provision which provides that the note can only be converted such that where the holder would beneficially own a maximum of 4.99% of our outstanding common stock.

6) Includes 270, 629 shares held by Michael Brauser and Betsy Brauser, TBE, 1,273,086 shares held by Grander Holdings Inc. 401K Profit Sharing Plan and 2,885,662 shares held by Michael H. Brauser & Betsy G. Brauser Jt. Tenants. Michael and Betsy Brauser share voting and and investment control over the securities held in the name of Michael Brauser and Betsy Brauser, TBE and Michael H. Brauser & Betsy G. Brauser Jt. Tenants. Michael Brauser is the trustee of Grander Holdings Inc. 401K Profit Sharing Plan and has sole voting and investment control over the securities held by Grander Holdings Inc. 401K Profit Sharing Plan. Excludes 500,000 shares of common stock underlying a promissory note issued to Michael Brauser. The note can be converted at $0.20 per share and contains a blocker provision providing that such note can only converted such that where the holder would beneficially own a maximum of 4.99% of our outstanding common stock.

7) Excludes 3,166,667 shares of common stock underlying a promissory notes issued to Barry Honig. The notes can be converted at $0.20 per share and contains a blocker provision providing that such note can only converted such that where the holder would beneficially own a maximum of 4.99% of our outstanding common stock.
8) Includes (i) 2,500,000 shares of common stock held by Olycra Limited Partnership and (ii) 439,467 shares of common stock held by Mr. Prego Novo. Excludes (i) 1,000,000 shares of common stock as to which Mr. Prego-Novo disclaims beneficial ownership, (ii) 500,000 shares of common stock underlying a warrant to purchase common stock issued to Mr. Prego-Novo and (iii) 20,000 shares of common stock underlying a promissory note issued to Mr. Prego-Novo. The warrant can be exercised at an exercise price of $0.40 per share and the note can be converted at a conversion price of $0.20 per share. The warrant and note contain blocker provisions providing that they can only converted up to the point where the holder would beneficially own a maximum of 4.99% of our outstanding common stock. Mr. Prego-Novo has sole voting and investment control over the securities held by Olyrca Limited Partnership.

SELLING STOCKHOLDER

Up to 8,345,310 shares of common stock are being offered by this prospectus, all of which are being registered for sale for the account of the selling security holder. These shares were originally issued to Aero in connection with an Asset Purchase Agreement dated as of May 16, 2011 by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc. In December 2011, Aero transferred the shares to the Aero Liquidating Trust. Upon effectiveness of this Registration Statement, and pursuant to the terms of Asset Purchase Agreement, the Aero Liquidating Trust will distribute the Company's registered shares to its shareholders on a pro rata basis.

The shares of common stock referred to above are being registered to permit public sales of the shares, and the selling stockholder may offer the shares for resale from time to time pursuant to this prospectus. The selling stockholder may also sell, transfer or otherwise dispose of all or a portion of its shares in transactions exempt from the registration requirements of the Securities Act or pursuant to another effective registration statement covering those shares.

The table below sets forth certain information regarding the selling stockholder and the shares of our common stock offered in this prospectus. The selling stockholder has had no material relationship with us within the past three years other than as described in the footnotes to the table below or as a result of its acquisition of our shares or other securities.

Beneficial ownership is determined in accordance with the rules of the SEC. The selling stockholder's percentage of ownership of our outstanding shares in the table below is based upon 63,642,696 shares of Common stock outstanding as of September 28, 2012.

	Ownership Before Offering		After Offering (1)	
Selling Stockholder	Number of Shares of Common stock Beneficially Owned	Number of Shares Offered	Number of Shares of Common stock Beneficially Owned	Percentage of Common stock Beneficially Owned
Aero Liquidating Trust (2)	8,345,310	8,345,310	0	0%
Total	--	8,345,310	--	--

(1) Represents the amount of shares that will be held by the selling stockholder after completion of this offering based on the assumptions that (a) all shares registered for sale by the registration statement of which this prospectus is part will be sold and (b) no other shares of our common stock are acquired or sold by the selling stockholder prior to completion of this offering. However, the selling stockholder may sell all, some or none of the shares offered pursuant to this prospectus and may sell other shares of our common stock that they may own pursuant to another registration statement under the Securities Act or sell some or all of their shares pursuant to an exemption from the registration provisions of the Securities Act, including under Rule 144. To our knowledge there are currently no agreements, arrangements or understanding with respect to the sale of any of the shares that may be held by the selling stockholder after completion of this offering or otherwise, other than the Asset Purchase Agreement with Aero, which requires the distribution of unsold shares to the shareholders of Aero on the date of liquidation of Aero. As such, the shareholders of Aero receiving registered shares may also be considered to be selling shareholders under this prospectus at such time as they receive such shares.

(2) James Martin is the trustee of the Aero Liquidating Trust and, as such, has sole voting and investment power over the shares held by the Aero Liquidating Trust.

DESCRIPTION OF SECURITIES

Authorized Capital Stock

We have authorized 100,000,000 shares of capital stock, par value $0.001 per share, all of which are designated as common stock.

Capital Stock Issued and Outstanding

As of September 28, 2012, there were issued and outstanding:

- 63,642,696 shares of common stock;
- Warrants to purchase (i) 1,000,000 shares of common stock at an exercise price of $1.00 per share, (ii) 1,105,000 shares of common stock at an exercise price of $0.60 per share
- Notes convertible into 14,443,037 shares of common stock at a conversion price of $0.20 per share.

Common Stock

The holders of the common stock will be entitled to one vote per share. In addition, the holders of the common stock will be entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors out of legally available funds; however, the current policy of our Board of Directors is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of the common stock will be entitled to share ratably in all assets that are legally available for distribution. The holders of the Common Stock will have no preemptive, subscription, redemption or conversion rights.

Dividend Policy

We have not previously paid any cash dividends on our common stock and do not anticipate or contemplate paying dividends on our common stock in the foreseeable future. We currently intend to use all our available funds to develop our business. We can give no assurances that we will ever have excess funds available to pay dividends.

Transfer Agent

The transfer agent for our common stock is Equity Stock Transfer.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with our accountants since our formation required to be disclosed pursuant to Item 304 of Regulation S-K, except those that have been previously reported in our filings with the Securities and Exchange Commission.

Indemnification of Directors and Officers

Nevada Revised Statutes ("NRS") Sections 78.7502 and 78.751 provide us with the power to indemnify any of our directors and officers. The director or officer must have conducted himself/herself in good faith and reasonably believe that his/her conduct was in, or not opposed to, our best interests. In a criminal action, the director, officer, employee or agent must not have had reasonable cause to believe his/her conduct was unlawful.

Under NRS Section 78.751, advances for expenses may be made by agreement if the director or officer affirms in writing that he/she believes he/she has met the standards and will personally repay the expenses if it is determined such officer or director did not meet the standards.

Our Bylaws include an indemnification provision under which we have the power to indemnify our directors, officers, former directors and officers, or any person who serves or served at our request for our benefit as a director or officer of another corporation or our representative in a partnership, joint venture, trust, or other enterprise (including heirs and personal representatives) against all expenses, liability, and loss actually and reasonably incurred.

We also have a director and officer indemnification agreement with our Chairman that provides, among other things, for the indemnification to the fullest extent permitted or required by Nevada law, provided that such indemnity shall not be entitled to indemnification in connection with any "claim" (as such term is defined in the agreement) initiated by the indemnity against us or our directors or officers unless we join or consent to the initiation of such claim, or the purchase and sale of securities by the indemnity in violation of Section 16(b) of the Exchange Act.

Any repeal or modification of these provisions approved by our stockholders shall be prospective only, and shall not adversely affect any limitation on the liability of any of our directors or officers existing as of the time of such repeal or modification.

We are also permitted to apply for insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the NRS would permit indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Limitation of Liability of Directors

Our Amended and Restated Articles of Incorporation provides a limitation of liability such that no director or officer shall be personally liable to us or any of our stockholders for damages for breach of fiduciary duty as a director or officer, involving any act or omission of any such director or officer, provided there was no intentional misconduct, fraud or a knowing violation of the law, or payment of dividends in violation of NRS Section 78.300.

PLAN OF DISTRIBUTION

This prospectus includes 8,345,310 shares of common stock offered by the selling stockholder, the Aero Liquidating Trust. The securities were original issued to Aero pursuant to an Asset Purchase Agreement dated as of May 16, 2011 by and among the Company, Baker Cummins Corp., a Nevada corporation, and Aero (the "APA"). In December 2011, Aero transferred these shares to the Aero Liquidating Trust, which is holding the shares for the benefit of the holders of the common stock of Aero of record (the "Aero Record Holders")

In accordance with Section 7.2 of the APA, which is incorporated by reference herein, the Aero Liquidating Trust shall distribute its shares of common stock to the Aero Record Holders pursuant to the plan of liquidation, which is contemplated by the APA.

The Aero Liquidating Trust intends to make a pro-rata distribution to the Aero Record Holders of the shares of common stock of the Company, which were originally acquired by Aero in connection with the APA. Presently, Aero has 111,145,001 shares of common stock outstanding, and the Aero Liquidating Trust owns 8,331,396 shares of the Company's common stock (out of approximately 63,642,696 shares outstanding). The Company has informed Aero and the Aero Liquidating Trust that it will make a cash payment, in lieu of issuing fractional shares, to the Aero Record Holders who would otherwise be entitled to receive fractional shares upon the distribution by the Aero Liquidating Trust of its shares of the Company's common stock. The Company will deliver such cash amount to the Aero Liquidating Trust so that it will pay such cash amount directly to the Aero Record Holders at the time it makes its distribution to the Aero Record Holders. Distribution of these shares will be made subsequent to the SEC declaring effective the Registration Statement on Form S-1 registering for resale the shares of the Company's Common Stock held by the Aero Liquidating Trust, of which this Prospectus forms a part.

As a result, the Aero Liquidating Trust will pay to each Aero Record Holder a pro-rata distribution of shares of the Company's common stock owned by the Aero Liquidating Trust, including the fractional cash amount to be paid by the Company to Aero Record Holders entitled to receive fractional shares of the Company's common stock upon the pro-rata distribution of shares of the Company's common stock owned by the Aero Liquidating Trust based on the contemplated 1 for-13.3 exchange ratio (based on the number of outstanding shares of Aero common stock and the number of shares of the Company's common stock held by the Aero Liquidating Trust, one whole share of the Company's common stock will be distributed for approximately 13.3 shares of Aero common stock).

The final distribution, including the payment of the fractional cash amount is in complete cancellation of Aero's common stock.

LEGAL MATTERS

Sichenzia Ross Friedman and Ference LLP, New York, New York, will pass upon the validity of the shares of our common stock to be sold in this offering.

EXPERTS

The financial statements for the fiscal year ending December 31, 2011 included in this prospectus have been audited by Paritz and Co. P.A., an independent registered public accounting firm as set forth in their report, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1, together with any amendments and related exhibits, under the Securities Act with respect to our shares of Common stock offered by this prospectus. The registration statement contains additional information about us and the shares of Common stock that we are offering in this prospectus.

We file annual, quarterly and current reports and other information with the SEC under the Exchange Act. You may request a copy of those filings, excluding exhibits, from us at no cost. These requests should be addressed to us at: Elliot Maza, Chief Executive Officer and Chief Financial Officer, BioZone Pharmaceuticals, Inc., 550 Sylvan Avenue, Suite 101, Englewood Cliffs, NJ 07632. Our telephone number is (201) 608-5101. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing by reference. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 174,212	$ 416,333
Account receivable net of allowance for doubtful accounts $113,339 and $449,524, respectively	1,261,230	523,039
Inventories	2,371,318	1,819,751
Prepaid expenses and other current assets	562,061	145,313
Total current assets	4,368,821	2,904,436
Property and equipment, net	3,409,867	3,342,447
Deferred financing costs, net	46,498	25,319
Goodwill	1,026,984	1,026,984
Intangibles, net	219,172	247,450
	4,702,521	4,642,200
Total Assets	$ 9,071,342	$ 7,546,636
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	1,607,652	1,616,673
Accrued expenses and other current liabilities	1,082,105	1,181,852
Accrued interest	108,928	83,548
Notes payable - shareholder	1,099,715	1,099,715
Convertible note payable	1,258,333	2,050,000
Deferred income tax	102,022	102,022
Derivative instruments	4,572,341	883,619
Current portion of long term debt	217,755	260,741
Total current liabilities	10,048,851	7,278,170
Long Term Debt	2,954,013	3,037,591
Shareholders' deficiency		
Common stock, $.001 par value, 100,000,000 shares authorized, 61,972,969 and 55,181,165 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	61,973	55,181
Additional paid-in capital	6,530,456	3,339,171
Accumulated deficit	(10,523,951)	(6,163,477)
Total shareholders' deficiency	(3,931,522)	(2,769,125)
Total liabilities and shareholders' deficiency	$ 9,071,342	$ 7,546,636

See accompanying notes to consolidated financial statements

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Sales	$ 4,912,144	$ 2,570,936	$ 8,422,186	$ 5,007,315
Cost of sales	(2,881,472)	(1,687,705)	(4,946,353)	(3,364,764)
Gross profit	2,030,672	883,231	3,475,833	1,642,551
Operating Expenses:				
General and administrative expenses	1,318,504	1,142,497	2,911,873	2,131,662
Selling expenses	242,976	147,058	464,537	285,147
Research and development expenses	206,504	53,392	428,118	115,156
Total Operating Expenses	1,767,984	1,342,947	3,804,528	2,531,965
Income (Loss) from operations	262,688	(459,716)	(328,695)	(889,414)
Interest expense	(1,014,852)	(108,686)	(4,487,697)	(222,195)
Gain on change in fair market value of derivative liability	37,726	--	455,918	--
Loss before provision for income taxes	(714,438)	(568,402)	(4,360,474)	(1,111,609)
Provision for income taxes	--	--	--	--
Net loss	$ (714,438)	$ (568,402)	$ (4,360,474)	$ (1,111,609)
Net loss per common share	$ (0.03)	$ (0.01)	$ (0.19)	$ (0.03)
Basic and diluted weighted average common shares outstanding	59,104,151	41,388,416	57,735,240	39,543,208

See accompanying notes to consolidated financial statements

BIOZONE PHARMACEUTICAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities		
Net loss	$ (4,360,474)	$ (1,111,609)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	49,803	16,000
Depreciation and Amortization	238,734	166,650
Amortization of financing costs	3,821	--
Gain on change in fair value of derivative liability	(455,918)	--
Stock and warrant based compensation	120,000	--
Non-cash interest expense	4,314,978	--
Changes in assets and liabilities:		
Account receivable-trade	(787,994)	(267,038)
Inventories	(551,567)	(242,218)
Prepaid expenses and other current assets	(416,748)	(51,085)
Accounts payable	(9,021)	471,054
Accrued expenses and other current liabilities	(183,295)	167,973
Net cash used in operating activities	(2,037,681)	(850,273)
Cash flows from investing activities		
Purchase of property and equipment	(277,876)	(9,376)
Cash acquired on business combination	--	585,720
Net cash provided by (used in) investing activities	(277,876)	576,344
Cash flows from financing activities		
Payment of deferred financing costs	(25,000)	(150,364)
Repayments to short-term loan	(42,986)	(97,384)
Proceeds from convertible debt	3,750,000	2,250,000
Repayment of borrowings from noteholders	(2,175,000)	
Repayments of long term debt	(83,578)	(137,371)
Proceeds from sale of common stock	650,000	
Repayment of shareholder loan	--	(2,742)
Net cash provided by financing activities	2,073,436	1,862,139
Net increase (decrease) in cash and cash equivalents	(242,121)	1,588,210
Cash and cash equivalents, beginning of period	416,333	251,475
Cash and cash equivalents, end of period	$ 174,212	$ 1,839,685
Supplemental disclosures of cash flow information:		
Interest paid	$ 256,482	$ 218,497
Debt discount from warrant liability	$ 2,755,274	--

See accompanying notes to consolidated financial statements

BioZone Pharmaceuticals. Inc.
Notes To Consolidated Financial Statements
June 30, 2012
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by accounting principles generally accepted in the United States. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission (the "SEC") on April 16, 2012. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for fair presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the entire year or for any other period.

2. Business Description and Going Concern

BioZone Pharmaceuticals, Inc. (formerly, International Surf Resorts, Inc.; the "Company", "we", "our") was incorporated under the laws of the State of Nevada on December 4, 2006. On March 1, 2011, we changed our name from International Surf Resorts, Inc. to BioZone Pharmaceuticals, Inc.

On May 16, 2011, we acquired substantially all of the assets and assumed all of the liabilities of Aero Pharmaceuticals, Inc. ("Aero") pursuant to an Asset Purchase Agreement dated as of that date. Aero manufactures, markets and distributes a line of dermatological products under the trade name of Baker Cummins Dermatologicals (see Note 4).

On June 30, 2011, we acquired: (i) 100% of the outstanding common stock of BioZone Laboratories, Inc. ("BioZone Labs") in exchange for 19,266,055 shares of our common stock; (ii) 100% of the outstanding membership interests of Equalan, LLC ("Equalan") and Equachem, LLC ("Equachem") in exchange for 1,027,523 and 385,321 shares of our common stock, respectively; and (iii) 45% of the outstanding membership interests of BetaZone Laboratories, LLC ("BetaZone") in exchange for 321,101 shares of our common stock, for a total of 21 million shares. The acquired entities shared substantially common ownership prior to the foregoing acquisition. (We refer to BioZone Labs, Equalan, Equachem and BetaZone, collectively as the "BioZone Lab Group").

BioZone Labs was incorporated under the laws of the State of California in 1991. Equalan was formed as a limited liability company under the laws of the State of California on January 2, 2007. Equachem was formed as a limited liability company under the laws of the State of California on March 12, 2007 under the name Chemdyn, LLC and changed its name to Equachem, LLC on July 25, 2007. BetaZone was formed as a Florida limited liability company on November 7, 2006.

The BioZone Lab Group has operated since inception as a developer, manufacturer, and marketer of over-the-counter drugs and preparations, cosmetics, and nutritional supplements on behalf of health care product marketing companies and national retailers. We have been developing our proprietary drug delivery technology (the "BioZone Technology") as an enhancement for approved, generic prescription drugs that are limited due to poor stability or bioavailability or variable absorption.

The Company accounted for the acquisition of the BioZone Lab Group as a "reverse acquisition". Accordingly, the Company is considered the legal acquirer and the BioZone Lab Group is considered the accounting acquirer. The current and future financial statements will be those of the BioZone Lab Group, and Aero from the date of acquisition.

These consolidated financial statements are presented on the basis that we will continue as a going concern concept which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As of June 30, 2012, we have a shareholder deficiency of $3,931,522, negative working capital of $5,680,030, which includes a non-cash derivative liability of $4,572,341, and have sustained operating losses for the prior two fiscal years. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements, and the success of its future operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

3. Summary of Significant Accounting Policies

Revenue Recognition. We follow the guidance of the SEC's Staff Accounting Bulletin ("SAB") 104 for revenue recognition and Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition". The Company operates as a contract manufacturer and produces finished goods according to customer specifications. The agreements with customers do not contain any rights of return other than for goods that fail to meet the specifications provided by the customer. The Company has not experienced any significant returns from customers and accordingly, in management's opinion, no reserve for returns is provided. We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the selling price to the customer is fixed or determinable and collectability of the revenue is reasonably assured.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, its equity investment in Betazone, Inc. and 580 Garcia Ave, LLC ("580 Garcia") a Variable Interest Entity ("VIE").

The Company considered the terms of its interest in 580 Garcia and determined that 580 Garcia is a VIE in accordance with ACS 810-10-55, which should be consolidated. As of June 30, 2012, amounts included in the consolidated assets relating to 580 Garcia, which are shown in property and equipment, and consolidated liabilities, which are reported in long-term debt, total $766,205 and $2,613,675, respectively. The Company's involvement with the entity is limited to its lease to rent the facility from 580 Garcia, with the Company as the only tenant, and the guarantee of the mortgage loan on the property of 580 Garcia. The Company's maximum exposure to loss, based on the Company's guarantee of the mortgage loan of 580 Garcia, is $2,613,675, which equals the carrying amount of the liability as of June 30, 2012.

Our investment in Betazone, which is our significant unconsolidated subsidiary, is accounted for using the equity method of accounting.

Convertible Instruments. We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 "Derivatives and Hedging Activities". Applicable Generally Accepted Accounting Principles ("GAAP") requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: We record when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

Common Stock Purchase Warrants. We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 ("Contracts in Entity's Own Equity"). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative instruments consisting of warrants to purchase shares of our common stock were valued using the Black-Scholes option pricing model, using the following assumptions at June 30, 2012:

Estimated dividends	None
Expected volatility	100%
Risk-free interest rate	0.83%
Expected term	4.25 years

Goodwill. Goodwill represents the excess of the consideration transferred over the fair value of net assets of business purchased. Goodwill is not being amortized but is evaluated for impairment on at least an annual basis.

4. Aero Acquisition

On May 16, 2011, we acquired the assets and assumed the liabilities of Aero in exchange for a total of 8,331,396 shares of our common stock, valued at $2 million as further described below. The acquisition was accounted for under the acquisition method of accounting. On September 21, 2011, the Company issued 13,914 shares of common stock to Aero in consideration for the delay in filing the Company's Registration Statement on Form S-1, as required in the Asset Purchase Agreement between the Company and Aero. These shares were valued at $0.50 per share and the resulting amount was charged to interest expense at the time of issuance.

The Company engaged a leading financial advisory firm specializing in corporate finance and business valuation to determine the fair value of certain identifiable intangible assets of Aero which were identified based on an analysis of the transaction, a review of available supporting documents, and discussions with management. The analysis focused on determining which components met the requirements for recognition as an intangible asset separate from goodwill under ASC 805, and had characteristics that allowed its value to be reasonably estimated. This analysis ultimately identified the acquired brands and customer relationships as the qualifying intangible assets subject to amortization, which were valued at $110,000 and $172,800, respectively. Intangible assets recognized apart from goodwill are classified as finite lived (subject to amortization) on the basis of the intangible asset's expected useful life, which was determined to be 5 years.

Accordingly, the purchase price has been allocated to the fair values of tangible and intangible assets acquired and liabilities assumed at the acquisition date as follows:

Financial assets	$ 598,168
Inventory	92,343
Property and equipment	1,377
Financial liabilities	(1,672)
Total identifiable assets	690,216
Goodwill	1,026,984
Intangibles	282,800
Total	$ **2,000,000**

5. Property and Equipment. A summary of property and equipment and the estimated useful lives used in the computation of depreciation and amortization is as follows:

Fixed Asset	Useful Life	June 30, 2012	December 31, 2011
Vehicles	5 years	$ 300,370	$ 300,370
Furniture and Fixtures	10 years	64,539	60,936
Computers	5 years	192,342	191,206
MFG equipment	10 years	4,026,120	3,967,302
Lab Equipment	10 years	988,122	821,639
Bldg/Leasehold	19 years (remainder of lease)	1,652,065	1,608,055
Building	40 years	571,141	571,141
Land	Not depreciated	380,000	380,000
		8,174,699	7,900,649
Accumulated depreciation		(4,764,832)	(4,558,202)
Net		$ 3,409,867	$ 3,342,447

6. Equity Method Investments. Our investment in Betazone, which is our significant unconsolidated subsidiary, is accounted for using the equity method of accounting. Summarized financial information for our investment in Betazone assuming 100% ownership interest is as follows:

	June 30, 2012	December 31, 2011
Balance sheet		
Current assets	31,843	124,462
Current liabilities	226,869	131,672
Statement of operations		
Revenues	17,632	315,346
Net loss	(169,922)	(102,047)

In 2011, the Company's share of Betazone's losses became equal in amount to the carrying value of its investment in Betazone. Accordingly, the Company suspended the equity method of accounting for its investment and no additional losses were charged to operations. The Company’s unrecorded share of losses for the six months ended June 30, 2012 totaled $76,465.

7. Convertible Notes Payable

The "March 2011 Notes"

On March 29, 2011, the Company sold 10% secured convertible promissory notes in the aggregate amount of $2,250,000, (the "March 2011 Notes") and warrants (the "March 2011 Warrants") to purchase securities of the Company in a Target Transaction Financing (as defined in the governing purchase agreement), pursuant to a Securities Purchase Agreement entered into on February 22, 2011.

The March 2011 Notes, extended as described below, originally were scheduled to mature on the earlier of October 29, 2011 or the closing date of the Target Transaction Financing. The entire principal amount and any accrued and unpaid interest was due and payable in cash on such maturity date.

We recorded the liability for the March 2011 Notes at an amount equal to the full consideration received upon issuance without considering the warrant value because the determination of the number of warrants and the exercise price of the warrants was dependent on the closing date of, and the price of securities issued in the Target Transaction Financing, which had yet to take place.

Effective October 28, 2011, the holders of the March 2011 Notes agreed to extend the maturity date of the March 2011 Notes (the "Extension Agreement") to October 29, 2011 (see Note 5). As consideration for the agreement by the holders to enter into the Extension Agreement, the Company (i) issued to the holders an aggregate of 112,500 shares of its common stock, and (ii) paid to the holders an aggregate of $129,000 of interest for the period beginning on February 28, 2011 (the date the holders placed the principal amount in escrow) and ending on March 28, 2011. The Company agreed to provide piggyback registration rights with respect to the 112,500 shares of common stock on the same terms and conditions provided for the securities required to be registered pursuant to the registration rights obligations by the Company under the private placement transaction documents.

The Company agreed that if it failed to repay the March 2011 Notes on or before the amended maturity date, then in addition to the interest due under the March 2011 Notes, the Company would pay an additional 2% penalty (annualized) for each 30 day period during which all or any portion of the principal or accrued interest remains unpaid, subject to a maximum aggregate interest rate of 20% (the sum of the 10% interest rate plus 2% for each 30 day delay period), with such 2% penalty calculated on the full principal amount regardless of whether any portion thereof has been repaid by the Company and such full amount accruing as of the day following the amended maturity date and then upon each 30 day anniversary of the amended maturity date.

On December 8, 2011, the Company repaid $200,000 to one of the note holders. In March 2012, the Company repaid in full all of the remaining outstanding principal and accrued interest due with respect to the March 2011 Notes.

The "September 2011 Note"

On September 22, 2011, the Company issued a 10% unsecured convertible promissory note with a principal amount of $500,000 due on March 22, 2012 (the "September 2011 Note") and a warrant (the "September 2011 Warrant") to purchase certain securities of the Company in the Target Transaction Financing, pursuant to a Securities Purchase Agreement entered into on that date.

On November 30, 2011, the holder of the September 2011 Note converted the entire principal amount and accrued interest due with respect to the September 2011 Note into 1,018,356 shares of our common stock. In addition, we issued to the holder a warrant to purchase 500,000 shares of our common stock at an exercise price of $1.00 per share.

The "February 2012 Notes"

On February 24, 2012, we entered into a Securities Purchase Agreement with OPKO Health Inc. pursuant to which we sold a 10% secured convertible promissory note in the aggregate principal amount of $1,700,000 due two years from the date of issuance and issued warrants to purchase 8,500,000 shares of the our common stock, at an exercise price of $0.20 per share, for gross proceeds of $1,700,000.

On February 28, 2012 and February 29, 2012, we entered in a Securities Purchase Agreement with two additional buyers pursuant to which we sold an additional $600,000 aggregate principal amount of notes and issued warrants to purchase an additional 3,000,000 shares of our common stock, at an exercise price of $0.20 per share, for gross proceeds of $600,000, on the same terms as the notes and warrants issued to OPKO as described above.

In connection with the sale of the notes and the warrants, the Company and the collateral agent for the buyers entered into a Pledge and Security Agreement pursuant to which all of our obligations under the notes are secured by a first priority perfected security interest in all of our tangible and intangible assets, including all of our ownership interest in our subsidiaries.

The entire principal amount and any accrued and unpaid interest on the notes is due and payable in cash on the maturity date set forth in the notes. The notes bear interest at the rate of 10% per annum. The notes are convertible into shares of our common stock at an initial conversion price of $0.20 per share, subject to adjustment. We may prepay any outstanding amount due under the notes, in whole or in part, prior to the maturity date. The notes are subject to certain "Events of Defaults" which could cause all amounts due and owing thereunder to become immediately due and payable. Among other things, our failure to pay any accrued but unpaid interest when due, the failure to perform any obligation under the governing transaction documents or if any representation or warranty made by the Company in connection with the governing transaction documents proves to have been incorrect in any material respect constitutes an Event of Default under the governing transaction documents.

The Company is prohibited from effecting a conversion of the notes or exercise of the warrants, to the extent that as a result of such conversion or exercise the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of such note or exercise of such warrant, as the case may be.

The warrants are immediately exercisable and expire ten years after the date of issuance. The warrants have an initial exercise price of $0.40 per share. The warrants are exercisable in cash or through a "cashless exercise".

We determined that the initial fair value of the warrants was $5,221,172 based on the Black-Scholes option pricing model, which we treated as a liability with a corresponding decrease in the carrying value of the notes. Under authoritative guidance, the carrying value of the notes may not be reduced below zero. Accordingly, we recorded interest expense of $2,921,172 at the time of the issuance of the notes, which is the excess of the value of the warrants over the allocated fair value of the notes. The discount related to the notes will be amortized over the term of the notes as interest expense, calculated using an effective interest method.

The "March 2012 Purchase Order Notes"

On March 13, 2012, we sold a 10% senior convertible promissory note with a principal amount of $1,000,000 (the "Purchase Order Note") to an accredited investor for a purchase price of $1,000,000. The principal amount of the Purchase Order Note is payable in cash on such dates and in such amounts as set forth in the Purchase Order Note, based on the receipt of proceeds from sales to a certain vendor (the "Vendor Proceeds"). The last date of the scheduled payments under the Purchase Order Note is referred to as the "Final Maturity Date". All of our obligations under the Purchase Order Note are secured by a first priority security interest in the Vendor Proceeds. The holder of the notes issued in February 2012 agreed to subordinate their security interest in the Vendor Proceeds to the interest of the holder of the Purchase Order Note.

The Purchase Order Note is convertible into shares of our common stock at an initial conversion price of $1.50 per share. The Purchase Order Note bears interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the Purchase Order Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount and (3) the occurrence of an Event of Default (as defined in the Purchase Order Note).

The Company has not recorded a BCF on the March 2011 Purchase Order Notes due to the effective conversion price being greater than the fair value of the Company's stock at the issuance date.

The Company is prohibited from effecting a conversion of the Purchase Order Note, to the extent that as a result of such conversion, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Purchase Order Note.

As of June 30, 2012, the Company repaid $125,000 of the Purchase Order Note.

The "April 2012 Working Capital Notes"

On April 18, 2012, we sold a 10% senior convertible promissory note with a principal amount of $250,000 (the "Working Capital Note") to an accredited investor for a purchase price of $250,000. The principal amount of the Working Capital Note is payable in cash on such dates and in such amounts as set forth in the Working Capital Note based on the receipt of the Vendor Proceeds. The last date of the scheduled payments under the Working Capital Note is referred to as the "Final Maturity Date". All of our obligations under the Purchase Order Note are secured by a first priority security interest in the Vendor Proceeds. The buyers of the February 2012 Notes agreed to subordinate their security interest in the Vendor Proceeds to the interest of the holder of the Working Capital Note.

The Working Capital Note is convertible into shares of our common stock at an initial conversion price of $1.50 per share. The Working Capital Note bears interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the Working Capital Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount and (3) the occurrence of an Event of Default (as defined in the Working Capital Note).

The Company is prohibited from effecting a conversion of the Working Capital Note, to the extent that as a result of such conversion, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Working Capital Note.

On June 28, 2012, the holder of the Working Capital Note exchanged such note for the June 2012 Convertible Notes described below.

The "June 2012 Working Capital Notes"

On June 13, 2012, we sold 10% promissory notes with an aggregate principal amount of $200,000 (the "June 2012 Working Capital Notes") to accredited investors for an aggregate purchase price of $200,000. The principal amount of the June 2012 Working Capital Notes is payable in cash on the date that is the earlier of receipt by the Company of $500,000 or more from any source (other than sales in the ordinary course of business) or three months from the issuance date.

The June 2012 Working Capital Notes bear interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the June 2012 Working Capital Notes, in whole or in part, at any time prior to the maturity date.

On June 28, 2012, the holders of the June 2012 Working Capital Notes exchanged such notes for the June 2012 Convertible Notes described below.

The "June 2012 Convertible Notes"

On June 28, 2012, we issued 10% convertible promissory notes (the "June 2012 Convertible Notes") with an aggregate principal amount of $455,274 and warrants (the "June 2012 Warrants") to purchase 2,250,000 shares of our common stock at an exercise price of $0.40 per share to the holders of the Working Capital Notes and June 2012 Working Capital Notes with an aggregate amount of principle and accrued interest due as of such date equal to the aggregate principle amount of the June 2012 Convertible Notes. The Working Capital Notes and June 2012 Working Capital Notes were cancelled.

The June 2012 Convertible Notes bear interest at the rate of 10% per annum and mature two years from their issue date. We may prepay any outstanding amounts owing under the June 2012 Convertible Notes, in whole or in part, at any time prior to the maturity date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earlier of the Maturity Date or the occurrence of an Event of Default (each as defined in the June 2012 Convertible Notes). The June 2012 Convertible Notes are convertible into shares of our common stock at an initial conversion price of $0.20 per share.

The Company is prohibited from effecting a conversion of the June 2012 Convertible Notes or exercise of the June 2012 Warrants, to the extent that as a result of such conversion or exercise, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the June 2012 Convertible Note or exercise of the June 2012 warrant, as the case may be.

The June 2012 Warrants are exercisable immediately and expire ten years after the date of issuance and have an initial exercise price of $0.40 per share. The June 2012 Warrants are exercisable in cash or through a "cashless exercise". We determined that the initial fair value of the June 2012 Warrants was $1,036,042 based on the Black-Scholes option pricing model, which we treated as a liability with a corresponding decrease in the carrying value of the June 2012 Convertible Notes. Under authoritative guidance, the carrying value of the June 2012 Convertible Notes may not be reduced below zero. Accordingly, we recorded interest expense of $580,768, which is the excess of the value of the June 2012 Warrants over the allocated fair value of the June 2012 Convertible Notes, at the time of the issuance of the June 2012 Convertible Notes. The discount related to the June 2012 Convertible Notes will be amortized over the term of the Notes as interest expense, calculated using an effective interest method.

The following table sets forth a summary of all the outstanding convertible promissory notes at June 30, 2012:

Convertible Promissory Notes	
Convertible promissory notes issued	$ 6,505,274
Notes repaid	(2,375,000)
Less amounts converted to common stock	(500,000)
	3,630,274
Less debt discount	2,371,941
Balance June 30, 2012	**$ 1,258,333**

8. Notes Payable – Shareholder. This amount is due to our former Executive Vice President for advances made to the Company, bears interest at a weighted average rate of approximately 10% and is due on demand. The Company is in dispute with the shareholder as to the balance due but has recorded the full amount claimed by the shareholder.

9. Long Term Debt. Long-term debt consists of:

Notes payable of BioZone Labs	**June 30, 2012**	**December 31, 2011**
Capitalized lease obligations bearing interest at rates ranging from 8.6% to 16.3%, payable in monthly installments of $168 to $1,589, inclusive of interest	$ 223,873	$ 307,255
City of Pittsburg Redevelopment Agency, 3% interest, payable in monthly installments of $3,640 inclusive of interest	242,627	257,639
Other	91,593	90,000
Notes payable of 580 Garcia Properties		
Mortgage payable of 580 Garcia collateralized by the land and building payable in monthly installments of $20,794, inclusive of interest at 7.24% per annum	2,613,675	2,643,438
	$ 3,171,768	$ 3,298,332
Less: current portion	217,755	260,741
Total	**$ 2,954,013**	**$ 3,037,591**

10. Warrants

The "March 2011Warrants"

In March, 2011, the Company issued the March 2011 Warrants to purchase securities of the Company in the Target Transaction Financing as defined in the governing purchase agreement (Note 7).

The March 2011 Warrants may be exercised immediately and expire five years after the date of issue. Each March 2011 Warrant has an initial exercise price of 120% of the price of the securities sold in the Target Transaction Financing (the "Financing Share Price"). The March 2011 Warrant entitles the holder to purchase the number of shares of Common Stock and/or other securities, including units of securities, sold in the Target Transaction Financing equal to the Warrant Coverage (as defined below) (a) multiplied by the principal amount of the Note (the "Purchase Price") and (b) divided by the Financing Share Price. "Warrant Coverage" means (i) 50% if closed on or prior to 120 days, (ii) 75% if closed after 120 days but before 150 days and (iii) 100% if closed after 150 days after the closing of the Private Placement. The March 2011 Warrant is exercisable in cash or by way of a "cashless exercise" during any period that a registration statement covering the resale of the underlying shares of common stock and/or other securities issuable upon exercise of the March 2011 Warrant, or an exemption from registration is not available. The exercise price of the March 2011 Warrant is subject to a "ratchet" anti-dilution adjustment for a period of one year from the closing of the Private Placement. This adjustment provides that in the event that the Company issues certain securities at a price lower than the then applicable exercise price, the exercise price of the March 2011 Warrant will be immediately reduced to equal the price at which the Company issued the securities.

On February 28, 2012, each holder of March 2011 Warrants entered into a Cancellation Agreement, which provides, among other things, for the cancellation of the March 2011 Warrants. In exchange, the Company issued to the former holders of the March 2011 Warrants a total of 1,000,000 replacement warrants (the "Replacement Warrants"). The Replacement Warrants may be exercised immediately and expire four years after the date of issue. Each Warrant has an initial exercise price of $0.60 per share, subject to adjustment for certain corporate reorganization transactions.

As of June 30, 2012, a total of 1,000,000 Replacement Warrants remain outstanding, with an exercise price of $0.60 per share

The "September 2011 Warrants"

In connection with the sale of the September 2011 Note, we issued the September 2011 Warrant to purchase certain securities of the Company in the Target Transaction Financing (Note 7).

The September 2011 Warrant may be exercised immediately and expires five years after the date of issue. The September 2011 Warrant has an initial exercise price of the lower of $1.80 and 120% of the per share price in the Target Transaction Financing. The September 2011 Warrant entitles the holder to purchase the number of shares of common stock and/or other securities, including units of securities, sold in the PIPE Offering (as defined in the Warrant) equal to the principal amount of the note issued pursuant to the Securities Purchase Agreement, divided by the lower of $1.50 and the per share price in the PIPE Offering. The September 2011 Warrant is exercisable in cash or, while a registration statement covering the resale of the underlying shares of common stock and/or other securities issuable upon exercise of the September 2011 Warrant, or an exemption from registration, is not available, by way of a "cashless exercise". The exercise price of the September 2011 Warrant is subject to a "ratchet" anti-dilution adjustment for a period of one year from the issue date of the September 2011 Warrant. This adjustment provides that in the event that the Company issues certain securities at a price lower than the then applicable exercise price, the exercise price of the September 2011 Warrant shall be immediately reduced to equal the price at which the Company issued the securities.

On November 30, 2011, the holder of the September 2011 Note converted the entire principal amount and accrued interest due with respect to the note into 1,018,356 shares of our common stock and the September 2011 Warrant was cancelled. In exchange, we issued to the holder a Replacement Warrant to purchase 500,000 shares of our common stock at an exercise price of $1.00 per share.

On June 28, 2012, the holder of the Replacement Warrant exercised his right to acquire 500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 375,000 shares of our common stock.

The "January 2012 Warrants"

On January 11, 2012 and January 25, 2012, we sold an aggregate of 1,300,000 units (the "Units") to accredited investors. Each Unit was sold for a purchase price of $0.50 per Unit and consisted of: (i) one share of the Company's common stock and (ii) a four-year warrant to purchase 0.5 shares of common stock at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events (the "January 2012 Warrants"). The January 2012 Warrants may be exercised on a cashless basis after twelve (12) months from the date of closing if there is no effective registration statement covering the resale of the underlying shares of common stock issuable upon exercise of the warrant. The January 2012 warrants provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the warrants upon request of the holders in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the January 2012 Warrants as liabilities.

As of June 30, 2012, a total of 650,000 January 2012 Warrants remain outstanding, with an exercise price of $0.50 per share.

The "February 2012 Warrants"

In connection with the sale of the February 2012 Notes, we issued the February 2012 Warrants entitling the holders to purchase up to 11,500,000 shares of our common stock (Note 7).

The February 2012 Warrants expire ten years from date of issuance and have an exercise price of $0.20 per common share. The February 2012 Warrants contain a "cashless exercise" feature and provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the February 2011 Warrants upon request of the holder in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the February 2012 Warrants as liabilities. The liability for the warrants, measured at fair value, based on a Black-Scholes option pricing model, has been offset by a reduction in the carrying value of the related February 2012 Notes.

On April 25, 2012, certain holders February 2012 Warrants exercised their right to acquire 3,500,000 shares of our common stock through the cashless exercise feature and we issued to the holders a total of 2,636,804 shares of our common stock.

On July 3, 2012, the remaining holder of February 2012 Warrants exercised its right to acquire 8,500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 7,650,000 shares of our common stock.

The Advisory and Consulting Warrants

As part of an Advisory and Consulting Agreement between the Company and Tekesta Capital Partners, in April 2012, we issued 200,000 warrants to purchase the Company's common stock. Based on authoritative guidance, we have accounted for these warrants as liabilities.

The warrants issued under the Advisory and Consulting Agreement expire five years from the date of issuance, have an exercise price of $0.60 per common share and contain a "cashless exercise" feature.

On August 2, 2012, holders of all the outstanding warrants issued under the Advisory and Consulting Agreement exercised their warrants on a cashless basis and received a total of 170,000 shares of the Company's common stock.

"The June 2012 Warrants"

In connection with the issuance of the June 2012 Notes, we issued the June 2012 Warrants entitling the holders to purchase up to a total of 2,250,000 shares of our common stock (Note 7).

The June 2012 Warrants expire ten years from the date of issuance and have an exercise price of $0.40 per common share. The June 2012 Warrants contain a "cashless exercise" feature. These warrants provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the warrants upon the request of the holder in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the June 2012 Warrants as liabilities. The liability for the June 2012 Warrants, measured at fair value, based on a Black-Scholes option pricing model, has been offset by a reduction in the carrying value of the related June 2012 Notes.

On June 28, 2012, the holders of the June 2012 Warrants exercised their rights to acquire 2,250,000 shares of our common stock through the cashless exercise feature and we issued to the holders a total of 2,025,000 shares of our common stock.

11. Concentrations. Two customers accounted for approximately 29% and 17% of our sales during the six months ended June 30, 2012 as compared to 20% and 13% of the our sales for the six months ended June 30, 2011. Two customers accounted for approximately 31% and 26% of our sales for the three months ended June 30, 2012 as compared to 30% and 14% of our sales for the three months ended June 30, 2011.

12. Contingencies

Employment Agreements

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of $200,000 each and the agreement with Mr. Oertle provides for an annual salary of $150,000. Pursuant to the terms of the agreements, each of these stockholders is eligible to participate in the Company's long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Board, subject to certain claw back rights. The agreements provide for payments of six months' severance in the event of early termination (other than for cause).

On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President for cause.

On February 3, 2012, Mr. Fisher resigned from his position as a director of the Company.

Leases

The Company leases its facilities under operating leases that expire at various dates. Total rent expense under these leases is recognized ratably over the initial period of each lease. Total rent and related expenses under operating leases were $317,282 and $337,329 for the six months ended June 30, 2012 and 2011, respectively, and $142,084 and $178,846 for the three months ended June 30, 2012 and 2011, respectively. Operating lease obligations after 2011 relate primarily to office facilities.

Litigation

We are not involved in any pending legal proceeding or litigation that we believe would have a material impact upon our business or results of operations except as may be described below.

Aphena Pharma Solutions – Maryland, LLC f/k/a Celeste Contract Packaging, LLC, v. BioZone Laboratories, Inc. and BioZone Pharmaceuticals, Inc. and Daniel Fisher, DISTRICT COURT FOR THE DISTRICT OF MARYLAND NORTHERN DIVISION Case 1:12-cv-00852-WDQ

An action was initiated recently against BioZone Labs, BioZone Pharma and a former officer and director in the United States District Court for the District of Maryland. The complaint in that matter, which was filed on March 19, 2012, alleges breach of contract and other commercial wrongdoing in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. Although the complaint does not specify the amount of plaintiff's alleged monetary damages, plaintiff's payment associated with the purchase order was less than $190,000. Accordingly, although our investigation into the matter is still in its earliest stages, we do not believe it will have a material impact on our business. In addition, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party, which would reasonably be likely to have a material adverse effect on our business or results of operations.

Daniel Fisher v. BiZone Pharmaceuticals, Inc., Elliot Maza, Brauser Honig Frost Group, Michael Brauser, Barry Honig, and The Frost Group LLC, United States District Court, Northern District of California, No. 12-03716

On July 16, 2012, Daniel Fisher, a former officer and director of the Company, commenced an action in the United States District Court for the Northern District of California against the Company and certain officers and investors thereof. Fisher asserts claims for breach of contract, conversion, wrongful termination, and unjust enrichment, and violation of the federal whistleblower statute arising from his former role as an officer and director of the Company and certain contractual agreements that he entered into with the Company. Mr. Fisher seeks $23 million in damages as against all defendants.

The Company disputes Fisher's allegations, intends to vigorously defend them, and has filed an action against Fisher in New York described below.

BioZone Pharmaceuticals, Inc. v. Daniel Fisher and 580 Garcia Properties, LLC, Supreme Court of the State of New York, County of New York, No. 652489/2012

On July 18, 2012, the Company commenced an action in New York State Court against Fisher and 580 Garcia Properties, LLC alleging breach of contract, breach of fiduciary duty, negligence, and fraud claims arising from Fisher's former role as an officer and director of the Company. The Company is seeking $2 million in damages, together with the cancellation of 6.65 million shares of the Company's stock, and Fisher's forfeiture of property located at 580 Garcia Avenue, Pittsburg, CA, which property is used by the Company as a warehouse facility.

13. Capital Deficiency

On January 11, 2012 and January 25, 2012, the Company sold an aggregate of 1,300,000 Units to accredited investors. Each Unit was sold for a purchase price of $0.50 per Unit and consists of: (i) one share of Common Stock and (ii) a four-year warrant to purchase 0.5 share of Common Stock purchased at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events.

On February 27, 2012, the Company issued warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.60 per share to the former holders of the March 2011 Notes described in Note 7 – Convertible Notes Payable in connection with the repayment of those notes.

On March 1, 2012, the Company issued 455,000 shares of its common stock to certain individuals who previously purchased shares of the Company's common stock on November 3, 2011 at a purchase price of $1.00 per share.

On April 25, 2012, the Company issued 2,636,804 shares of common stock upon the cashless exercise of warrants to purchase 3,000,000 shares.

On June 28, 2012, the Company issued 2,400,000 shares of common stock upon the cashless exercise of warrants to purchase 2,750,000 shares.

14. Income Taxes. No provision for income taxes has been recorded due to the 100% valuation allowance provided against net operating loss carry forwards.

15. Subsequent Events

Management has evaluated events occurring after the date of these financial statements through the date these financial statements were issued. There were no material subsequent events as of that date other than disclosed below.

On July 3, 2012, the holder of February 2012 Warrants exercised its right to acquire 8,500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 7,650,000 shares of our common stock.

On August 2, 2012, the holder of all the outstanding Advisory and Consulting Warrants exercised their warrants through the cashless exercise feature and received a total of 170,000 shares of the Company's common stock.

Paritz & Company, P.A.
certified public accountants

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Biozone Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Biozone Pharmaceuticals, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the years ended December 31, 2011 and 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biozone Pharmaceuticals, Inc. as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not have sufficient cash balances to meet working capital and capital expenditure needs for the next twelve months. In addition, as of December 31, 2011, the Company has a shareholder deficiency of $2,769,125 and negative working capital of $4,373,734. The continuation of the Company as a going concern is dependent on, among other things, the Company's ability to obtain necessary financing to repay debt that is in default and to meet future operating and capital requirements. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

/s/ Paritz and Company. P.A.

Hackensack, N.J.
April 12, 2012

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 416,333	$ 251,475
Account receivable net of allowance for doubtful accounts $449,524 and $118,356, respectively	523,039	1,397,414
Inventories	1,819,751	2,501,110
Prepaid expenses and other current assets	145,313	43,282
Total current assets	2,904,436	4,193,281
Property and equipment, net	3,342,447	3,262,133
Deferred financing costs, net	25,319	35,363
Goodwill	1,026,984	-
Intangibles, net	247,450	-
Investment in unconsolidated subsidiary	-	42,677
	4,642,200	3,340,173
Total Assets	$ 7,546,636	$ 7,533,454
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Note payable - bank	-	2,502,863
Account payable	1,616,673	963,853
Accrued expenses and other current liabilities	1,181,852	132,889
Accrued interest	83,548	-
Notes payable - shareholder	1,099,715	1,102,926
Convertible notes payable	2,050,000	-
Deferred income tax	102,022	98,750
Derivative instruments	883,619	-
Current portion of long term debt	260,741	277,299
Total current liabilities	7,278,170	5,078,580
Long Term Debt	3,037,591	3,044,074
Shareholders' deficiency		
Common stock, $.001 par value, 100,000,000 shares authorized, 55,181,165 and 44,749,999 shares issued and outstanding at December 31, 2011, and 2010, respectively	55,181	44,750
Additional paid-in capital	3,339,171	72,217
Accumulated deficit	(6,163,477)	(706,167)
Total shareholders' deficiency	(2,769,125)	(589,200)
Total liabilities and shareholders' deficiency	$ 7,546,636	$ 7,533,454

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2011	**2010**
Sales	$ 12,605,146	$ 15,253,685
Cost of sales	(8,639,658)	(8,427,608)
Gross profit	3,965,488	6,826,077
Operating Expenses:		
General and adminstrative expenses	7,452,864	6,617,249
Research and development expenses	399,624	240,873
Total operating expenses	7,852,488	6,858,122
Loss from operations	(3,887,000)	(32,045)
Interest expense	(1,242,853)	(439,018)
Change in fair value of derivative liability	(281,508)	-
Equity in earnings (loss) of unconsolidated subsidiary	(42,677)	55,305
Loss before credit for income taxes	(5,454,038)	(415,758)
Provision (benefit) for income taxes	3,272	(95,945)
Net loss	$ (5,457,310)	$ (319,813)
Net loss per common share	$ (0.11)	$ (0.01)
Basic and diluted weighted average common shares outstanding	50,443,025	44,749,999

BIOZONE PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2011	**2010**
Cash flows from operating activities		
Net (loss)	$ (5,457,310)	$ (319,813)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Deferred income taxes	3,272	-
Bad debt expense	326,456	554,343
Depreciation and amortization	531,844	432,566
Amortization of financing costs	160,408	7,401
Write-off obsolete inventory	1,439,616	-
Gain on change in fair value of derivative liability	281,508	-
Equity in loss (earnings) of unconsolidated subsidiary	42,677	(55,305)
Non-cash interest expense	758,044	-
Changes in assets and liabilities:		
Account receivable-trade	560,353	(650,485)
Inventories	(665,914)	(62,790)
Prepaid expenses and other current assets	(102,031)	43,879
Deferred taxes	-	(103,005)
Accounts payable	652,240	(58,845)
Accrued expenses and other current liabilities	1,047,884	(49,366)
Net cash used in operating activities	(420,953)	(261,420)
Cash flows from investing activities		
Purchase of property and equipment	(575,430)	(357,610)
Cash acquired on business combination	585,720	-
Net cash provided by (used in) investing activities	10,290	(357,610)
Cash flows from financing activities		
Proceeds from convertible debt	2,750,000	-
Payment of deferred financing costs	(150,364)	
Repayment of borrowings from noteholders	(2,725,904)	(92,223)
Proceeds from sale of common stock	705,000	
Advance from (payment to) shareholder	(3,211)	375,321
Net cash provided by financing activities	575,521	283,098
Net increase (decrease) in cash and cash equivalents	164,858	(335,932)
Cash and cash equivalents, beginning of year	251,475	587,407
Cash and cash equivalents, end of year	$ 416,333	$ 251,475
Supplemental disclosures of cash flow information:		
Interest paid	$ 539,616	$ 439,018
Conversion of convertible note payable and acrued interest to common stock	$ 509,178	$ -

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

	Common Stock		Additional paid in capital	Accumulated defecit	Total
	Number of Shares	Amount			
Balance as of December 31, 2009	44,749,999	$ 44,750	$ 115,248	$ (386,354)	$ (226,356)
Distribution			(43,031)		(43,031)
Net loss for year				(319,813)	(319,813)
Balance at December 31, 2010	44,749,999	44,750	72,217	(706,167)	589,200
Shares issued for acquisition	8,331,396	8,331	1,991,669		2,000,000
Proceeds from sale of common stock	955,000	955	704,045		705,000
Shares issued to extend maturity date of convertible notes payable	112,500	113	56,137		56,250
Shares issued upon conversion of convertible note payable	1,018,356	1,018	508,160		509,178
Shares issued for liquidated damages	13,914	14	6,943		6,957
Net loss for the year				(5,457,310)	(5,457,310)
Balance at December 31, 2011	55,181,165	$ 55,181	$ 3,339,171	$ (6,163,477)	$ (2,769,125)

NOTE 1 – Business

Biozone Pharmaceuticals, Inc. (formerly, International Surf Resorts, Inc.; the "Company", "we", "our") was incorporated under the laws of the State of Nevada on December 4, 2006. On March 1, 2011, we changed our name from International Surf Resorts, Inc.to Biozone Pharmaceuticals, Inc.

On May 16, 2011, we acquired substantially all of the assets and assumed all of the liabilities of Aero Pharmaceuticals, Inc. ("Aero") pursuant to an Asset Purchase Agreement dated as of that date. Aero manufactures markets and distributes a line of dermatological products under the trade name of Baker Cummins Dermatologicals (see Note 3).

On June 30, 2011, we acquired: (i) 100% of the outstanding common stock of BioZone Laboratories, Inc. ("BioZone Labs") in exchange for 19,266,055 shares of our common stock; (ii) 100% of the outstanding membership interests of Equalan, LLC ("Equalan") and Equachem, LLC ("Equachem") in exchange for 1,027,523 and 385,321 shares of our common stock, respectively; and (iii) 45% of the outstanding membership interests of BetaZone, LLC ("BetaZone") in exchange for 321,101 shares of our common stock. The acquired entities shared substantially common ownership prior to the foregoing acquisition. (We refer to BioZone Labs, Equalan, Equachem and BetaZone, collectively as the "BioZone Lab Group").

BioZone Labs was incorporated under the laws of the State of California in 1991. Equalan was formed as a limited liability company under the laws of the State of California on January 2, 2007. Equachem was formed as a limited liability company under the laws of the State of California on March 12, 2007 under the name Chemdyn, LLC and changed its name to Equachem, LLC on July 25, 2007. BetaZone was formed as a Florida limited liability company on November 7, 2006.

The BioZone Lab Group has operated since inception as a developer, manufacturer, and marketer of over-the-counter drugs and preparations, cosmetics, and nutritional supplements on behalf of health care product marketing companies and national retailers. The Company has been developing our proprietary drug delivery technology (the "BioZone Technology") as an enhancement for approved, generic prescription drugs that are limited due to poor stability or bioavailability or variable absorption.

The Company accounted for the acquisition of the BioZone Lab Group as a "reverse acquisition". Accordingly, the Company is considered the legal acquirer and the BioZone Lab Group is considered the accounting acquirer. The current and future financial statements will be those of the BioZone Lab Group, and Aero from the date of acquisition.

These consolidated financial statements are presented on the basis that we will continue as a going concern concept which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Our current balances of cash will not meet our working capital and capital expenditure needs for the next twelve months. In addition, as of December 31, 2011, we have a shareholder deficiency of $2,769,125 and negative working capital of $4,373,734. Because we are not currently generating sufficient cash to fund our operations and we have debt that is in default, we may need to rely on external financing to meet future operating, debt repayment and capital requirements. These conditions raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty.

NOTE 2 - Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Biozone Phamaceuticals, Inc. and its subsidiaries, all of which are wholly owned, its equity investment in Betazone, Inc. and its 580 Garcia Ave, a Variable Interest Entity ("VIE").

The Company considered the terms of its interest in 580 Garcia and determined that it was a variable interest entity (VIE) in accordance with ACS 810-10-55, and that it should be consolidated. As of December 31, 2011, amounts included in the consolidated assets, which are shown in Property and equipment and consolidated liabilities, which are reported in long-term debt total $773,510 and $2,643,435, respectively relating to 580 Garcia. The Company's involvement with the entity is limited to the lease it has to rent its facility from 580 Garcia, in which the Company is the only tenant, and the guarantee of the mortgage on the property of 580 Garcia. The Company's maximum exposure to loss, which is based on the Company's guarantee of the mortgage of 580 Garcia is $2,643,435, which equals the carrying amount of its liability as of December 31, 2011.

Our significant unconsolidated subsidiary that is accounted for using the equity method of accounting is our investment in Betazone Laboratories LLC.

Use of Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include the collectability of accounts receivable and deferred taxes and related valuation allowances. Certain of our estimates, including evaluating the collectability of accounts receivable, could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We re-evaluate all of our accounting estimates at least quarterly based on these conditions and record adjustments when necessary.

Cash and Cash Equivalents

We consider all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash

equivalents.

Revenue Recognition

We follow the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 104 for revenue recognition and Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition". The Company operates as a contract manufacturer and produces finished goods according to customer specifications. The agreements with customers do not contain any rights of return other than for goods that fail to meet the specifications provided by the customer. The Company has not experienced any significant returns from customers and accordingly, in management's opinion, no reserve for returns is provided. We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the selling price to the customer is fixed or determinable and collectability of the revenue is reasonably assured.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

We have a policy of reserving for uncollectible accounts based on our best estimate of the amount of probable credit losses in our existing accounts receivable. We extend credit to our customers based on an evaluation of their financial condition and other factors. We generally do not require collateral or other security to support accounts receivable. We perform ongoing credit evaluations of our customers and maintain an allowance for potential bad debts if required. We determine whether an allowance for doubtful accounts is required by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations. In these cases, we use assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance. We may also record a general allowance as necessary. Direct write-offs are taken in the period when we have exhausted our efforts to collect overdue and unpaid receivables or otherwise evaluate other circumstances that indicate that we should abandon such efforts.

Inventories

Inventories are stated at the lower of cost, determined using the weighted average cost method, and net realizable value. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose of the product.

If the Company identifies excess, obsolete or unsalable items, its inventories are written down to their realizable value in the period in which the impairment is first identified. During the year ended December 31, 2011 we recorded a charge to cost of sales of $1,439,616 relating to the write-down of inventory due to obsolescence. Shipping and handling costs incurred for inventory purchases and product shipments are recorded in cost of sales in the Company's consolidated statements of operations.

Fair Value Measurements

We adopted the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The carrying amounts of our short and long term credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates taken together with other features such as concurrent issuances of warrants and/or embedded conversion options, are comparable to rates of returns for instruments of similar credit risk.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities
Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable
Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The warrant liabilities issued in connection with our convertible debt, classified as a level 3 liability, are the only financial liability measured at fair value on a recurring basis

We measure derivative liabilities at fair value using the Black-Scholes option pricing model with assumptions that include the fair value of the stock underlying the derivative instrument, the exercise or conversion price of the derivative instrument, the risk free interest rate for a term comparable to the term of the derivative instrument and the volatility rate and dividend yield for our common stock. For derivative instruments convertible into or exercisable for shares of our preferred stock, we considered the price per share of $.50 paid by unrelated parties as the fair value of our common stock. For derivative instruments convertible into or exercisable for shares of our common stock, we considered the results of a valuation performed by a third party specialist and other internal analyses performed by management to determine the value of our stock at the commitment dates of applicable transactions. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future due to its substantial accumulated deficit. Accordingly, expected dividends yields are currently zero. Expected volatility is based principally on an analysis of historical volatilities of similarly situated companies in the marketplace for a number of periods that is at least equal to the contractual term or estimated life of the applicable financial instrument.

We also considered the use of the lattice or binomial models with respect to valuing derivative financial instruments that feature anti-dilution price protection; however, the differences in the results are insignificant due to the low probability of triggering price adjustments in such financial instruments

Stock-based compensation

We recognize compensation expense for stock-based compensation in accordance with ASC Topic 718. For employee stock-based awards, we calculate the fair value of the award on the date of grant using the Black-Scholes method for stock options and the quoted price of our common stock for unrestricted shares; the expense is recognized over the service period for awards expected to vest. For non-employee stock-based awards, we calculate the fair value of the award on the date of grant in the same manner as employee awards. However, the awards are revalued at the end of each reporting period and the pro rata compensation expense is adjusted accordingly until such time the nonemployee award is fully vested, at which time the total compensation recognized to date equals the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient's performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for on a straight-line basis over the useful lives of the assets. Expenditures for additions and improvements are capitalized; repairs and maintenance are expensed as incurred.

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of net assets of business purchased. Goodwill is not being amortized but is evaluated for impairment on at least an annual basis.

Impairment of long lived assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Income taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Convertible Instruments

We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 "Derivatives and Hedging Activities".

Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: We record when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. The embedded conversion option in connection with our convertible debt could not be exercised unless and until we completed a Qualifying Financing transaction. Accordingly, we determined based on authoritative guidance that the embedded conversion option is deemed to be a contingent conversion rather than active conversion option that did not require accounting recognition at the commitment dates of the issuances of the Notes.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 ("Contracts in Entity's Own Equity"). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative instruments consisting of warrants to purchase our common stock were valued using the Black-Scholes option pricing model, using the following assumptions at December 31, 2011:

Estimated dividends	None
Expected volatility	100%
Risk-free interest rate	0.83%
Expected term	4.25 years

Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist principally of cash and cash equivalents. We maintain our cash accounts at high quality financial institutions with balances, at times, in excess of Federally insured limits. Management believes that the financial institutions that hold our deposits are financially sound and therefore pose minimal credit risk

Research and development

Research and development expenditures are charged to operations as incurred

NOTE 3 – Aero Acquisition

On May 16, 2011, we acquired the assets and assumed the liabilities of Aero in exchange for a total of 8,331,396 shares of our common stock valued at $2 million. The acquisition was accounted for under the acquisition method of accounting. On September 21, 2011, the Company issued 13,914 shares of common stock to Aero Pharmaceuticals, Inc. in consideration for the delay in filing the Company's Registration Statement on Form S-1, as required in the Asset Purchase Agreement between the Company and Aero Pharmaceuticals, Inc. These shares were valued at $0.50 per share and charged to interest expense.

The Company engaged a leading financial advisory firm specializing in corporate finance and business valuation to determine the fair value of certain identifiable intangible assets of Aero Pharmaceuticals, Inc., which were identified based on an analysis of the transaction, a review of available supporting documents, and discussions with management. The analysis focused on determining which components met the requirements for recognition as an intangible asset separate from goodwill under ASC 805, and had characteristics that allowed its value to be reasonably estimated. This analysis ultimately identified the acquired brands and customer relationships as the qualifying intangible assets subject to amortization, which were valued at $110,000 and $172,800, respectively. Intangible assets recognized apart from goodwill are classified as finite lived (subject to amortization) on the basis of the intangible asset's expected useful life, which was determined to be 5 years.

Accordingly, the purchase price has been allocated to the fair values of tangible and intangible assets acquired and liabilities assumed at the acquisition date as follows:

Financial assets	$ 598,168
Inventory	92,343
Property and equipment	1,377
Financial liabilities	(1,672)
Total identifiable assets	690,216
Goodwill	1,026,984
Intangibles	282,800
	$2,000,000

The following table provides unaudited pro-forma results of operations for the fiscal years ended December 31, 2011 and 2010 as if the acquisition had been consummated as of the beginning of each period presented. The pro-forma results include the effect of certain purchase accounting adjustments, such as the estimated changes in depreciation and amortization expense on the acquired intangible assets. However, pro-forma results do not include any anticipated cost savings or other effects of the planned integration of the companies. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated, or which may occur in the future.

Pro-forma results Year ended December 31,	
2011	2010

Revenues	$12,712,091	$15,585,000
Loss before income taxes	(5,515,081)	(516,458)
Net loss per share	$ (0.11)	$ (0.01)

NOTE 4 – Property and Equipment

A summary of property and equipment and the estimated useful lives used in the computation of depreciation and amortization is as follows:

Fixed Asset	Useful Life	December 31, 2011	December 31, 2010
Vehicles	5 years	300,370	271,607
Furniture and Fixtures	10 years	60,936	66,195
Computers	5 years	191,206	142,978
MFG equipment	10 years	3,967,302	3,938,440
Lab Equipment	10 years	821,639	413,198
Building improvements	19 years	1,608,055	1,545,758
Building	40 years	571,141	571,141
Land	Not depreciated	380,000	380,000
		7,900,649	7,329,317
Accumulated depreciation		(4,558,202)	(4,067,184)
Net		3,342,447	3,262,133

NOTE 5 – Equity Method Investments

Our significant unconsolidated subsidiary that is accounted for using the equity method of accounting is our investment in Betazone Laboratories LLC. Summarized financial information for our Invesment in Betazone Laboratories, LLC assuming 100% ownership interest is as follows:

	2011	2010
Balance sheet		
Current assets	124,462	95,054
Current Liabilities	131,672	217
Statement of operations		
Revenues	315,346	225,266
Net income (loss)	(102,047)	122,901

In 2011, when the company's share of losses equaled the carrying value of its investment, the equity method of accounting was suspended, and no additional losses were charged to operations. The company's unrecorded share of losses for 2011 totaled $3,245.

NOTE 6 – Convertible Notes Payable

The "March 2011 Notes"

On March 29, 2011, the Company sold 10% secured convertible promissory notes in the amount of $2,250,000, (the "March 2011 Notes") and warrants (the "March Warrants") to purchase securities of the Company in the Target Transaction Financing (as defined below), pursuant to a Securities Purchase Agreement entered into on February 22, 2011 (the "Securities Purchase Agreement" and the "Private Placement").

The March 2011 Notes, extended as described below , originally were scheduled to mature on the earlier of October 29, 2011 or the closing date of the Target Transaction Financing (such earlier date, the "Maturity Date"). The entire principal amount and any accrued and unpaid interest was due and payable in cash on the Maturity Date.

We recorded the liability for the March 2011 Notes at an amount equal to the full consideration received upon issuance, without considering the Warrant value because the determination of the number of warrants and the exercise price of the warrants is dependent on the closing date of, and the price of securities issued in the Target Transaction Financing, which has yet to take place.

Effective October 28, 2011, the purchasers of the March 2011 Notes (the "Note Holders") agreed to extend the maturity date of the Notes (the "Extension Agreement") to October 29, 2011(the "New Maturity Date") (see Note 5). As consideration for the agreement by the Note Holders to enter into the Extension Agreement, the Company (i) issued to the Note Holders an aggregate of 112,500 shares of its common stock, par value $0.001 per share and (ii) paid to the Investors, an aggregate of $129,000 of interest for the period beginning on February 28, 2011 (the date the Note Holders placed the principal amount in escrow) and ending on March 28, 2011. The Company agreed to provide piggyback registration rights with respect to the 112,500 shares on the same terms and conditions provided for the registrable securities in the Registration Rights Agreement contained in the Private Placement.

The Company agreed that if it fails to repay the March 2011 Notes on or before the New Maturity Date, then in addition to the interest due under the March 2011 Notes, the Company would pay an additional 2% (annualized) for each 30 day period all or any portion of the principal or accrued interest remain unpaid, subject to a maximum aggregate interest rate of 20% (the sum of the 10% interest rate plus 2% for each 30 day delay period), with such 2% being calculated on the full principal amount regardless of whether any portion thereof has been repaid by the Company and such full amount accruing as of the day following the New Maturity Date and then upon each 30 day anniversary of the New Maturity Date.

On December 8, 2011 the Company repaid $200,000 to one of the note holders.

In March 2012, the Company repaid in full all of the outstanding principal and accrued interest due with respect to the March 2011 Notes.

The "September 2011 Note"

On September 22, 2011, the Company issued a 10% unsecured convertible promissory note with a principal amount of $500,000, due on March 22, 2012 (the "September 2011 Note") and a warrant (the "September Warrant") to purchase certain securities of the Company in the Target Transaction Financing, pursuant to a Securities Purchase Agreement entered into on that date (the"Securities Purchase Agreement").

On November 30, 2011, the note and accrued interest were converted into 1,018,356 shares of common stock, par value $0.001 per share. The Company also issued the holder a warrant to purchase 500,000 shares of common stock at an exercise price of $1.00 per share.

NOTE 7 – Notes Payable – Shareholder

This amount is due to our former Executive Vice President for advances made to the Company, bears interest at a weighted average rate of approximately 10% and is due on demand. The Company is in dispute with the shareholder as to the balance due but has recorded the full amount claimed by the shareholder.

NOTE 8 – Long Term Debt

	Year ended December 31,	
Notes payable of Biozone Labs	2011	2010
Capitalized lease obligations bearing interest at rates ranging from 8.6% to 16.3%, payable in monthly installments of $168 to $1,589, inclusive of interest	$ 307,255	$ 213,510
City of Pittsburg Redevelopment Agency, 3% interest, payable in monthly installments of $3,640 inclusive of interest	257,639	304,721
Other	90,000	100,000
Notes payable of 580 Garcia Properties		
Mortgage payable of 580 Garcia collateralized by the land and building payable in monthly installments of $20,794, inclusive of interest at 7.24% per annum	2,643,438	2,703,142
	$ 3,298,332	$ 3,321,373
Less: current portion	260,741	277,299
	3,037,591	3,044,074

Long-term debt (excluding capital leases) matures as follow:

12/31/2012	106,797
12/31/2013	112,434
12/31/2014	118,446
12/31/2015	124,766
12/31/2016	131,695
Thereafter	2,396,940

Future minimum annual lease payments for capital leases in effect as of December 31, 2011 are as follows:

12/31/2012	153,944
12/31/2013	69,316
12/31/2014	58,214
12/31/2015	25,780
12/31/2016	-
Thereafter	-

NOTE 9 – Warrants

On March 29, 2011 and September 22, 2011, the Company issued warrants to purchase securities of the Company in the Target Transaction Financing (Note 5). The Warrants are immediately exercisable and expire five years after the date of issue. Each Warrant has an initial exercise price of 120% of the price of the securities sold in the Target Transaction Financing (the "Financing Share Price"). The Warrant entitles the holder to purchase the number of shares of Common Stock and/or other securities, including units of securities, sold in the Target Transaction Financing equal to the Warrant Coverage (as defined herein) (a) multiplied by the principal amount of the Note (the "Purchase Price") and (b) divided by the Financing Share Price. "Warrant Coverage" means (i) 50% if closed on or prior to 120 days, (ii) 75% if closed after 120 days but before 150 days and (iii) 100%, if closed after 150 days after the closing of the Private Placement. The Warrant is exercisable in cash or by way of a "cashless exercise" during any period that a registration statement covering the shares of Common Stock and/or other securities issuable upon exercise of the Warrant, or an exemption from registration, is not available. The exercise price of the Warrant is subject to a "ratchet" anti-dilution adjustment for a period of one year from the closing of the Private Placement. This adjustment provides that, in the event that the Company issues certain securities at a price lower than the then applicable exercise price, the exercise price of the Warrant will be immediately reduced to equal the price at which the Company issued the securities.

The value of the warrants have been recorded as a derivative liability.

NOTE 10 – Income Taxes

The reconciliation of income tax benefit at the U.S. statutory rate of 34% for the years ended December 31, 2011 and 2010 to the Company's effective tax rate is as follows:

	Year ended December 31,	
	2011	2010
U.S. federal statutory rate	-34.0%	-34.0%
State income tax, net of federal benefit	-6.0%	-6.0%
Permanent differences	8.7%	0.0%
Increase in valuation allowance	31.9%	28.0%
Income tax provision (benefit)	0.6%	-12.0%

The benefit for income tax is summarized as follows:

	Year ended December 31,	
	2011	2010

Federal:		
Current	$ -	$ -
Deferred	(1,693,454)	(81,553)
State and local:		
Current	-	
Deferred	(298,845)	(14,392)
Change in valuation allowance	1,995,571	-
Income tax provision (benefit)	$ 3,272	$ (95,945)

The tax effects of temporary differences that give rise to the Company's net deferred tax liability as of December 31, 2011 and 2010 are as follows:

	Year ended December 31,	
	2011	2010
Deferred tax assets		
Net operating losses	$ 1,003,188	$ 274,138
Allowance for doubtful accounts	179,810	47,342
	1,182,998	321,480
Less: valuation allowance	(1,182,998)	(274,138)
	-	47,342
Deferred tax liability		
Depreciation	102,022	(146,092)
Total deferred tax liability	$ 102,022	$ (98,750)

As of December 31, 2011 and 2010, the Company had approximately $2,500,000 and $685,000 of federal and state net operating loss carryovers ("NOLs") which begin to expire in 2028. Utilization of the NOLs may be subject to limitation under the Internal Revenue Code Section 382 should there be a greater than 50% ownership change as determined under regulations. The change in ownership occurred of the Company that in June 2011 resulted in an annual limitation on the usage of the Company's pre-acquisition net operating loss carryforwards.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the assessment, management has established a full valuation allowance against all of the deferred tax asset relating to NOLs for every period because it is more likely than not that all of the deferred tax asset will not be realized.

The Company files U.S. federal and states of California tax returns that are subject to audit by tax authorities beginning with the year ended December 31, 2008.The Company's policy is to classify assessments, if any, for tax and related interest and penalties as tax expense. We do not currently have any ongoing tax examinations.

NOTE 11 – Concentrations

Approximately, 27% and 9% of the Company's sales for the year ended December 31, 2011 were made to two customers. These customers accounted for 30% and 11% of the Company's sales for the year ended December 31, 2010.

NOTE 12 – Contingencies

Employment Agreements

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of $200,000 each and the agreement with Mr. Oertle provides for an annual salary of $150,000. Pursuant to the terms of the agreements, each of these stockholders is eligible to participate in the Company's long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board, subject to certain claw back rights. The agreements provide for payments of six months' severance in the event of early termination (other than for cause).

Leases

The Company leases its facilities under operating leases that expire at various dates. Total rent expense under these leases is recognized ratably over the initial renewal period of each lease. The following table presents future minimum lease commitments under non-cancelable operating leases at December 31, 2011:

2012	$ 466,414
2013	442,623
2014	442,623
2015	211,022
2016	63,481
Thereafter	-
	$1,626,163

Total rent and related expenses under operating leases were $411,551 and $403,669 for the years ended December 31, 2011, 2010 respectively. Operating lease obligations after 2011 relate primarily to office facilities

Litigation

We are not involved in any pending legal proceeding or litigation that we believe would have a material impact upon our business or results of operations.

Aphena Pharma Solutions – Maryland, LLC f/k/a Celeste Contract Packaging, LLC, v. BioZone Laboratories, Inc. and BioZone Pharmaceuticals, Inc. and Daniel Fisher, DISTRICT COURT FOR THE DISTRICT OF MARYLAND NORTHERN DIVISION Case 1:12-cv-00852-WDQ

An action was initiated recently against BioZone Labs, BioZone Pharma and a former officer and director in the United States District Court for the District of Maryland. The complaint in that matter, which was filed on March 19, 2012, alleges breach of contract and other commercial wrongdoing in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. Although the complaint does not specify the amount of plaintiff's alleged monetary damages, plaintiff's payment associated with the purchase order was less than $190,000. Accordingly, although our investigation into the matter is still in its earliest stages, we do not believe it will have a material impact on our business. In addition, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party, which would reasonably be likely to have a material adverse effect on our business or results of operations.

BioZone Laboratories, Inc. v. ComputerShare Trust Co., N.A. and Cardium Therapeutics, Inc. District Court, State of Colorado, County of Jefferson, Case No. 2012CV406

The Company commenced the above action, by filing of a Summons and Complaint, on February 2, 2012 for declaratory relief, specific performance and monetary damages against Defendants ComputerShare Trust Co., N.A. ("ComputerShare") and Cardium Therepeutics, Inc. ("Cardium") (collectively, the "Defendants"). This action arises from, inter alia, the failure of ComputerShare, which was acting as an escrow agent in connection with the Company's purchase of Cardium stock, to deliver such stock to the Company as required by an Escrow Agreement entered into between the Company and Defendants. By Order, dated March 30, 2012, the Court dismissed this action on the ground that venuw was improper in Colorado.

NOTE 13 - Subsequent Events

On January 11, 2012, the Company sold an aggregate of 600,000 units (the "Units") with gross proceeds to the Company of $300,000. Each Unit was sold for a purchase price of $0.50 per Unit and consists of: (i) one share of Common Stock and (ii) a four-year warrant to purchase 300,000 shares of Common Stock purchased at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events. The warrants may be exercised on a cashless basis after twelve (12) months from the date of closing, if there is no effective registration statement covering the shares of Common Stock issuable upon exercise of the Warrant.

On January 25, 2012, the Company sold an aggregate of 700,000 units (the "Units") with gross proceeds to the Company of $350,000.

Each Unit was sold for a purchase price of $0.50 per Unit and consists of: (i) one share of Common Stock and (ii) a four-year warrant to purchase 350,000 shares of Common Stock at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events. The warrants may be exercised on a cashless basis after twelve (12) months from the date of closing, if there is no effective registration statement covering the shares of Common Stock issuable upon exercise of the Warrant.

On January 30, 2012, the Board of Directors of the Company removed Daniel Fisher from his position as the Company's Executive Vice President. Mr. Fisher resigned from his position as Director on February 3, 2012.

On February 24, 2012, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with a purchaser (the "Buyer") pursuant to which the Company sold (i) $1,700,000 of its 10% secured convertible promissory note (the "Note") due two years from the date of issuance (the "Maturity Date") and (ii) warrants (the "Warrants") to purchase 8,500,000 shares of the Company's common stock at an exercise price of $0.40 per share for gross proceeds to the Company of $1,700,000. On February 28, 2012 and February 29, 2012, the Company sold an additional $600,000 of its Notes and issued Warrants to purchase an additional 3,000,000 shares of the Company's common stock to additional Buyers for gross proceeds to the Company of $600,000.

The entire principal amount and any accrued and unpaid interest on the Notes shall be due and payable in cash on the Maturity Date. The Notes bear interest at the rate of 10% per annum. The Notes are convertible into shares of the Company's common stock at an initial conversion price of $0.20 per share, subject to adjustment. The Company may prepay any outstanding amount due under the Notes, in whole or in party, prior to the Maturity Date. The Notes are subject to certain "Events of Defaults" which could cause all amounts due and owing thereunder to become immediately due and payable. Among other things, the Company's failure to pay any accrued but unpaid interest when due, the failure to perform any obligation under the Transaction Documents (as defined herein) or if any representation or warranty made by the Company in connection with the Transaction Documents shall prove to have been incorrect in any material respect, shall constitute an Event of Default under the Transaction Documents.

The Warrant is immediately exercisable and expires ten years after the date of issuance. The Warrant has an initial exercise price of $0.40 per share. The Warrant is exercisable in cash or, while a registration statement covering the shares of Common Stock issuable upon exercise of the Warrant, or an exemption from registration, is not available, by way of a "cashless exercise".

The Company is prohibited from effecting a conversion of the Notes or exercise of the Warrants, to the extent that as a result of such conversion or exercise, the Buyer would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of such Note or exercise of such Warrant, as the case may be.

In connection with the sale of the Notes and the Warrants, the Company and the collateral agent for the Buyers entered into a Pledge and Security Agreement (the "Security Agreement" and, collectively with the Securities Purchase Agreement, the Note and the Warrant, the "Transaction Documents") pursuant to which all of the Company's obligations under the Notes are secured by a first priority perfected security interest in all of the tangible and intangible assets of the Company, including all of its ownership interest in its subsidiaries.

On February 27, 2012, the Company issued warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.60 per share to the former holders of the March 2011 Notes described in Note 6 – Convertible Notes Payable in connection with the repayment of those notes.

On March 1, 2012, the Company issued 455,000 shares of its common stock to certain individuals who previously purchased shares of the Company's common stock on November 3, 2011 at a purchase price of $1.00 per share.

On March 13, 2012, the "Company sold a 10% senior convertible promissory note (the "Note") to an accredited investor (the "Investor") for an aggregate purchase price of $1,000,000. The principal amount of the Note is payable in cash on such dates and in such amounts as set forth in the Note, based on the receipt of proceeds from sales to a certain vendor (the "Vendor Proceeds"). The last date of such scheduled payment shall be referred to as the "Final Maturity Date".

The Note bears interest at the rate of 10% per annum. The Company may prepay any outstanding amounts owing under the Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest thereof, shall be due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount hereunder and (3) the occurrence of an Event of Default (as defined in the Note). The Note is convertible into shares of the Company's common stock at an initial conversion price of $1.50 per share.

The Company is prohibited from effecting a conversion of the Note, to the extent that as a result of such conversion, the Investor would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Note.

All of the Company's obligations under the Note are secured by a first priority security interest in the Vendor Proceeds.

Certain holders of senior secured indebtedness of the Company agreed to subordinate their security interest in the Vendor Proceeds to the interest of the Investor under the Note.

BIOZONE PHARMECEUTICALS, INC.

8,345,310 Shares

Common Stock

PROSPECTUS

, 2012

PART II - INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuances and Distribution.

The following table sets forth the costs and expenses payable by us in connection with the issuance and distribution of the securities being registered. None of the following expenses are payable by the selling stockholder. All of the amounts shown are estimates, except for the SEC registration fee.

SEC registration fee	$	3,953.07
Legal fees and expenses	$	50,000
Accounting fees and expenses	$	25,000
Miscellaneous	$	15,000
TOTAL	$	93,953.07

Item 14. Indemnification of Directors and Officers.

Nevada Revised Statutes ("NRS") Sections 78.7502 and 78.751 provide us with the power to indemnify any of our directors and officers. The director or officer must have conducted himself/herself in good faith and reasonably believe that his/her conduct was in, or not opposed to, our best interests. In a criminal action, the director, officer, employee or agent must not have had reasonable cause to believe his/her conduct was unlawful.

Under NRS Section 78.751, advances for expenses may be made by agreement if the director or officer affirms in writing that he/she believes he/she has met the standards and will personally repay the expenses if it is determined such officer or director did not meet the standards.

Our Bylaws include an indemnification provision under which we have the power to indemnify our directors, officers, former directors and officers, or any person who serves or served at our request for our benefit as a director or officer of another corporation or our representative in a partnership, joint venture, trust, or other enterprise (including heirs and personal representatives) against all expenses, liability, and loss actually and reasonably incurred.

We also have a director and officer indemnification agreement with our Chairman that provides, among other things, for the indemnification to the fullest extent permitted or required by Nevada law, provided that such indemnity shall not be entitled to indemnification in connection with any "claim" (as such term is defined in the agreement) initiated by the indemnity against us or our directors or officers unless we join or consent to the initiation of such claim, or the purchase and sale of securities by the indemnity in violation of Section 16(b) of the Exchange Act.

Any repeal or modification of these provisions approved by our stockholders shall be prospective only, and shall not adversely affect any limitation on the liability of any of our directors or officers existing as of the time of such repeal or modification.

We are also permitted to apply for insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the NRS would permit indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Our Amended and Restated Articles of Incorporation provides a limitation of liability such that no director or officer shall be personally liable to us or any of our stockholders for damages for breach of fiduciary duty as a director or officer, involving any act or omission of any such director or officer, provided there was no intentional misconduct, fraud or a knowing violation of the law, or payment of dividends in violation of NRS Section 78.300

Item 15. Recent Sales of Unregistered Securities.

On August 2, 2012, holders of all the outstanding warrants issued under the Advisory and Consulting agreement exercised their warrants on a cashless basis and received a total of 170,000 shares of the Company's common stock. The shares were issued to "accredited investors," as such term is defined in the Securities Act, and were offered and sold in reliance upon the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws.

On July 3, 2012, the remaining holder of February 2012 Warrants exercised its right to acquire 8,500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 7,650,000 shares of our common stock. The shares were issued to "accredited investors," as such term is defined in the Securities Act, and were offered and sold in reliance upon the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws.

On June 28, 2012, we issued $455,274 of our 10% convertible promissory notes and warrants to purchase an aggregate of 2,250,000 shares of our Common Stock at an exercise price of $0.40 per share to certain accredited investors in consideration for the cancellation of certain of our outstanding promissory notes, in the aggregate principal amount of $450,000 and accrued interest of $5,274, issued on June 13, 2012 and April 18, 2012, to such prior investors. The notes were issued to "accredited investors," as such term is defined in the Securities Act and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws.

On June 13, 2012, we sold 10% promissory notes to accredited investors for an aggregate purchase price of $200,000. The principal amount of the notes is payable in cash on the date that is the earlier of receipt by the Company of $500,000 or more from any source (other than sales in the ordinary course of business) or three months from the issuance date. The notes were issued to "accredited investors," as such term is defined in the Securities Act and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws.

On April 18, 2012, we sold a 10% senior secured convertible promissory note to an accredited investor for a purchase price of $250,000. The principal amount of the Note is payable in cash on such dates and in such amounts as set forth in the Note, based on the receipt of proceeds from sales to a certain vendor (the "Vendor Proceeds"). August 7, 2012, the last date of such scheduled payment, is referred to as the "Final Maturity Date". The Company may prepay any outstanding amounts owing under the Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest thereof, is due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount thereunder or (3) the occurrence of an event of default (as defined in the Note). The note is convertible into shares of the Company's common stock at an initial conversion price of $1.50 per share. The Company is prohibited from effecting a conversion of the Note, to the extent that as a result of such conversion, the investor would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Note. All of the Company's obligations under the Note are secured by a first priority security interest in the Vendor Proceeds. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On March 13, 2012, we sold a 10% senior convertible promissory note to an accredited investor for an aggregate purchase price of $1,000,000. The principal amount of the note is payable in cash on such dates and in such amounts as set forth in the Note, based on the receipt of proceeds from sales to a certain vendor (the "Vendor Proceeds"). July 7, 2012, the last date of such scheduled payment, is referred to as the "Final Maturity Date". The Company may prepay any outstanding amounts owing under the Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest thereof, shall be due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount hereunder and (3) the occurrence of an Event of Default (as defined in the Note). The Note is convertible into shares of the Company's common stock at an initial conversion price of $1.50 per share. All of the Company's obligations under the Note are secured by a first priority security interest in the Vendor Proceeds. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On March 1, 2012, we issued 455,000 shares of its common stock to certain individuals who had previously purchased shares at a purchase price of $1.00 per share. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On February 24, 2012, we entered into a securities purchase agreement with Opko Health, Inc., pursuant to which we sold (i) a $1,700,000 10% secured convertible promissory note due two years from the date of issuance and (ii) ten year warrants to purchase 8,500,000 shares of our common stock at an exercise price of $0.40 per share for gross proceeds to us of $1,700,000. The warrants may be exercised on a cashless basis commencing on the issue date. Dr. Philip Frost, the trustee of the Frost Gamma Investments Trust, a holder of 6.07% of our issued and outstanding common stock, is the Chairman and Chief Executive Officer of Opko Health, Inc. On February 28, 2012 and February 29, 2012, we sold an additional $600,000 of notes and issued warrants on the same terms to purchase an additional 3,000,000 shares of our common stock to additional buyers for gross proceeds to us of $600,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On February 27, 2012, we issued four year warrants to purchase 1,000,000 shares of our common stock at an exercise price of $0.60 per share to the former holders of the March 2011 Notes described in Note 6 – Convertible Notes Payable in connection with the repayment of those notes. The transaction did not involve any underwriters, underwriting discounts or commissions of any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On January 25, 2012, we sold an aggregate of 700,000 units of our securities for gross proceeds of $350,000. Each unit was sold for a purchase price of $0.50 per unit and consists of: (i) one share of common stock and (ii) a four-year warrant to purchase fifty (50%) percent of the number of shares of common stock purchased at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events. The warrants may be exercised on a cashless basis after twelve months from the date of closing, if there is no effective registration statement covering the shares of common stock issuable upon exercise of the warrant. We granted the investors "piggy-back" registration rights with respect to the shares of common stock underlying the units and the shares of common stock underlying the warrants, for a period of twelve months from the date of closing. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On January 11, 2012, we sold an aggregate of 600,000 units with gross proceeds to the Company of $300,000. Each unit was sold for a purchase price of $0.50 per unit and consists of: (i) one share of common stock and (ii) a four-year warrant to purchase fifty (50%) percent of the number of shares of common stock purchased at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events. The warrants may be exercised on a cashless basis after twelve (12) months from the date of closing, if there is no effective registration statement covering the shares of common stock issuable upon exercise of the Warrant. The Company granted the investors "piggy-back" registration rights with respect to the shares of common stock underlying the units and the shares of common stock underlying the warrants, for a period of twelve months from the date of closing. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On November 30, 2011, we issued 500,000 shares of common stock at a purchase price of $0.50 per share pursuant to a subscription agreement. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On November 30, 2011, we issued 1,018,356 shares of common stock upon conversion of the principal and all of the interest due on a certain convertible promissory note issued on September 22, 2011. We also issued the holder a five year warrant to purchase 500,000 shares of common stock at an exercise price of $1.00 per share. The shares and warrants were issued to an "accredited investor" in a transaction that did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On November 3, 2011, we issued 455,000 shares of common stock at a purchase price of $1.00 per share pursuant to subscription agreements entered into on October 31, 2011 and November 1, 2011. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On October 28, 2011, we issued an aggregate of 112,500 shares of our common stock to the holders of the notes issued in March 2011, in consideration for the extension of the maturity dates of such Notes. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On September 22, 2011, we issued a 10% convertible promissory note with a principal amount of $500,000 due on March 22, 2012 and a five year warrant to purchase certain securities of the Company in a Target Transaction Financing (defined as “a private placement of the Company’s securities yielding gross proceeds to the Company of at least $8,000,000”). The warrant has an exercise price equal to the lower of (x) $1.80 or (y) 120% of the price that the Company’s securities will be sold in a Target Transaction Financing. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On September 21, 2011, we issued 13,914 shares of common stock to Aero Pharmaceuticals, Inc., due to the delay in filing the Company's Registration Statement on Form S-1, as required by the Asset Purchase Agreement between the Company and Aero Pharmaceuticals, Inc. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On July 7, 2011, we issued 500,000 shares of our common stock to a consultant in exchange for strategic corporate advisory services. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On June 30, 2011, we issued an aggregate of (i) 19,266,055 shares of our common stock to the shareholders of BioZone Labs in consideration for 100% of the issued and outstanding shares of common stock of BioZone Labs; (ii) 1,027,523 shares of our common stock to the members of Equalan in consideration for 100% of the outstanding membership interests of Equalan; (iii) 385,321 shares of our common stock to the members of Equachem in consideration for 100% of the outstanding membership interests of Equachem; and 321,101 shares of our common stock to the members of BetaZone in consideration for 45% of the outstanding membership interests of BetaZone. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On May 16, 2011, the Company issued 7,724,000 shares of our restricted common stock to Aero and assumed Aero's liabilities in connection with the acquisition and agreed to issue additional shares on the basis of one share for (A) each dollar of current assets transferred to the Company at the closing, as set forth on the closing date balance sheet of Aero, to be delivered following the closing, and (B) each dollar of costs incurred for liquidation, certain income taxes and perfected or settled dissenters' rights of appraisal, up to a maximum of an additional 7,500,000 shares. Pursuant to the foregoing, the Company issued an additional 607,396 shares. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On March 29, 2011, we issued 10% secured convertible promissory notes in the aggregate principal sum of $2,250,000, due on September 29, 2011 (unless accelerated as described below) and five year warrants to purchase certain securities of the Company in the Target Transaction (which is defined as a transaction pursuant to which the Company will acquire one or more businesses or companies approved by the holders), pursuant to a Securities Purchase Agreement Financing entered into on February 22, 2011. The notes have an aggregate principal amount of $2,250,000 and mature on the earlier of September 29, 2011 or the closing date of the Target Transaction Financing (such earlier date, the "Maturity Date"). The entire principal amount and any accrued and unpaid interest shall be due and payable in cash on the Maturity Date. The notes bear interest at the rate of 10% per annum. The principal and interest will not be prepaid except in connection with the consummation of the Target Transaction Financing, in which case the holder may elect either to (i) convert all of the principal and accrued and unpaid interest then outstanding into the securities offered in the Target Transaction Financing at a price per share or unit, as the case may be, equal to 80% of the price at which such securities are sold or (ii) require the Company to repay the principal amount then outstanding and any accrued and unpaid interest in cash. In the event that the note is not prepaid or converted prior to September 29, 2011, the Company shall pay to the holders (in the aggregate) a penalty fee equal to: (i) the principal amount of the note divided by (ii) $2,000,000 and multiplied by (iii) $100,000. In the event that the Target Transaction has not closed on or prior to September 29, 2011, the Company shall pay to the holder 150% of any portion of the principal amount then outstanding plus all accrued and unpaid interest thereon. The warrants have an exercise price of 120% of the price that the Company's securities will be sold in a Target Transaction. The notes and warrants were issued to accredited investors in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of and Rule 506 promulgated thereunder. In March 2012, we repaid in full all of the outstanding principal and accrued interest due with respect to the notes. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On March 1, 2011, we issued 1,000,000 shares of our common stock to Roberto Prego-Novo Jr., the adult son of our Chairman, in consideration for $30,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

In June 2007 we issued 529,800 shares of our common stock for $0.25 per share for gross proceeds of $132,450. In March 2007, we issued 240,000 shares of our common stock to repay certain loans in the amount of $60,000. The shares were issued were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 promulgated thereunder.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

The exhibits to the registration statement are listed in the Exhibit Index to this registration statement and are incorporated by reference herein.

(b) Financial Statement Schedules.

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement on Form S-1/A to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Englewood Cliffs, State of New Jersey, on the 28th day of September 2012.

BIOZONE PHARMECEUTICALS, INC.
(Registrant)

By: /s/ Elliot Maza
Name: Elliot Maza
Title: Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated.

SIGNATURE	TITLE	DATE
/s/ Elliot Maza Elliot Maza	Chief Executive Officer and Chief Financial Officer	September 28, 2012
* Roberto Prego-Novo	Chairman of the Board of Directors	September 28, 2012
* Brian Keller	President, Chief Scientific Officer and Director	September 28, 2012

* Executed on September 28, 2012 by Elliot Maza as attorney-in-fact under power of attorney granted in the Registration Statement previously filed on September 21, 2011.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation (1)
3.2	Certificate of Amendment to Articles of Incorporation (1)
3.3	Certificate of Amendment to Articles of Incorporation (2)
3.4	Bylaws (1)
5.1	Opinion of Sichenzia Ross Friedman Ference LLP (previously filed)
10.1	Asset Purchase Agreement, dated as of May 16, 2011, by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc.(4)
10.2	Assignment and Assumption Agreement, dated May 16, 2011, by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc. (4)
10.3	Bill of Sale, dated as of May 16, 2011, made and delivered by Aero Pharmaceuticals, Inc., to Baker Cummins Corp. (4)
10.4	Form of Securities Purchase Agreement, dated as of February 28, 2011. *
10.5	Form of Secured Convertible Promissory Note (3)
10.6	Form of Warrant (3)
10.7	Form of Registration Rights Agreement (3)
10.8	Pledge and Security Agreement (3)
10.9	Form of Non-Recourse Principal Stockholder Stock Pledge Agreement (3)
10.10	Director and Officer Indemnification Agreement (3)
10.11	Amendment No.1 to Asset Purchase Agreement dated as of April 25, 2011 by and between Aero Pharmaceuticals, Inc. and Teva Respiratory, LLC(4)
10.12	Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Equalan LLC) (5)
10.13	Form of Stock Purchase Agreement dated June 30, 2011 (BioZone Laboratories Inc.) (5)
10.14	Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Equachem LLC) (5)
10.15	Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Betazone LLC) (5)
10.16	Form of Lockup Agreement (5)
10.17	Stock Option Agreement, dated June 30, 2011, between Brian Keller and Opko Health, Inc. (5)
10.18	Stock Option Agreement, dated June 30, 2011, between Daniel Fisher and Opko Health, Inc. (5)
10.19	Employment Agreement, dated June, 2011, between the Company and Brian Keller (5)
10.20	Employment Agreement, dated June 30, 2011, between the Company and Daniel Fisher (5)
10.21	Employment Agreement, dated June 30, 2011, between the Company and Christian Oertle (5)
10.22	License Agreement, dated November 7, 2006, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5)
10.23	Amendment No. 1 to License Agreement, dated April 4, 2011, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5)
10.24	Amendment No. 2 to License Agreement, dated June 29, 2011, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5)
10.25	Form of Securities Purchase Agreement (6)

10.26	Form of Convertible Promissory Note (6)
10.27	Form of Warrant (6)
10.28	Form of Registration Rights (6)
10.29	Form of Note Extension Agreement (7)
10.30	Form of Subscription Agreement (8)
10.31	Form of Subscription Agreement (9)
10.32	Form of Subscription Agreement (11)
10.33	Form of Warrant (11)
10.34	Form of Subscription Agreement (12)
10.35	Form of Warrant (12)
10.36	Form of Security and Stock Pledge Agreement (12)
10.37	Form of Note (13)
10.38	Form of Note (14)
10.39	Stock Purchase Agreement, dated December 29, 2011, by and among the Company, Global Property Corp. and ISR Investments LLC, Eduardo Biancardi and Timothy Neely, (15)
10.40	Qusome Patent Assignment from Brian Charles Keller et al. to the Company, dated December 19, 2006 (15)
10.41	License Agreement, dated February 13, 2012, between the Company and Nian Wu, (15)
10.42	Assignment of Patent Rights, dated February 12, 2012, between the Company and Nian Wu and Brian Charles Keller(15)
10.43	Lease, dated March 1, 2004, between the Company and 580 Garcia Properties LLC (15)
10.44	Distribution Agreement, dated February 24, 2012, between the Company and OPKO Pharmaceuticals, LLC (15)
10.45	Limited License Agreement, dated February 24, 2012, between the BioZone Laboratories, Inc., Equachem, LLC, the Company and OPKO Pharmaceuticals, LLC (15)
10.46	Supply Agreement (redacted) (15)
10.47	Form of LLC Membership Interest Purchase Agreement with exhibits dated June, 2011 (Equalan LLC) (15)
10.48	Form of Stock Purchase Agreement (BioZone Laboratories Inc.) with exhibits dated June, 2011 (15)
10.49	Form of LLC Membership Interest Purchase Agreement (Equachem LLC) with exhibits dated June, 2011 (15)
10.50	Form of LLC Membership Interest Purchase Agreement (Betazone LLC) with exhibits dated June, 2011 (15)
10.51	Promissory Note issued to Daniel Fisher dated September 10, 2001 (15)
10.52	Promissory Note issued to Daniel Fisher dated September 1, 2002 (15)
10.53	Promissory Note issued to Daniel and Sharon Fisher dated September 30, 2005 (15)
10.54	Promissory Note issued to Daniel Fisher dated December 31, 2008 (15)
10.55	Promissory Note issued to Daniel and Sharon Fisher dated January 7, 2010 (15)
10.56	Promissory Note issued to Daniel and Sharon Fisher dated April 8, 2010 (15)
10.57	Promissory Note issued to Daniel and Sharon Fisher dated May 19, 2010 (15)
10.58	Form of Purchase Order (15)
10.59	Amendment No. 2 to Betazone License Agreement, dated June, 2011 between BioZone Laboratories, Inc. and BetaZone Laboratories, LLC, (15)
10.60	Promissory Note issued to General Electric Capital Corporation, dated August 23, 2007, (15)

10.61	Form of Promissory Note (16)
10.62	Form of Warrant (16)
10.63	Separation and Release Agreement between the Company and Nian Wu, dated September, 2012. (17)
10.64	License Agreement between the Company and Nian Wu, dated September 20, 2012. (17)
10.65	Lease Agreement, dated May 22, 2006, between BioZone Laboratories, Inc. and Empire Business Park*
21	List of Subsidiaries (4)
23.1	Consent of Paritz & Company PA*
23.2	Consent of Sichenzia Ross Friedman Ference LLP (included in Exhibit 5.1) (previously filed)
24.1	Power of Attorney (10)

* Filed herewith

** Confidential treatment has been requested for this exhibit and confidential portions have been filed with the SEC

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, filed with the SEC on September 20, 2007.

(2) Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the SEC on March 4, 2011.

(3) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 1, 2011.

(4) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on May 19, 2011.

(5) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on July 7, 2011.

(6) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on September 27, 2011

(7) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on October 28, 2011

(8) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on October 31, 2011

(9) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on December 7, 2011

(10) Included on the signature page hereto

(11) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on January 13, 2012

(12) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 1, 2012

(13) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 16, 2012

(14) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2012

(15) Incorporated by reference to the Company's Registration Statement on Form S-1/A, filed with the SEC on July 2, 2012

(16) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on July 5, 2012

(17) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on September 24, 2012

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "**Agreement**") is dated as of February __, 2011, between International Surf Resorts, Inc., a Nevada corporation (the "**Company**"), and each of the Purchasers identified on the signature pages hereto (including their respective successors and assigns, each, a "**Purchaser,**" and collectively, the "**Purchasers**").

WHEREAS, within one hundred twenty (120) days from the Closing Date (as defined below) of the transactions contemplated by this Agreement, the Company will consummate a transaction pursuant to which it shall acquire one or more businesses or companies approved by Purchasers in accordance with the terms hereof (the "**Target Transaction**");

WHEREAS, immediately after or simultaneously with the Target Transaction, the Company shall use its best efforts to close a private placement of its common stock, par value $0.001 per share (the "**Common Stock**"), or other securities (the "**PIPE Securities**") yielding gross proceeds to the Company of at least eight million Dollars ($8,000,000) (the "**PIPE Offering**," and the price at which such PIPE Securities are sold is referred to herein as the "**PIPE Share Price**");

WHEREAS, in anticipation of the Target Transaction, and subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), the Company desires to issue and sell to each Purchaser, and each Purchaser desires, severally and not jointly, to purchase from the Company, (i) a convertible promissory note, in the form attached hereto as Exhibit A (the "**Note**"), which Note shall be convertible, at Purchaser's sole option, into the PIPE Securities at a price per share or unit, as the case may be, equal to 80% of the PIPE Share Price, in accordance with the terms of the Note, and (ii) a warrant, in the form attached hereto as Exhibit B (the "**Warrant**," and, with the Note and the securities into which each are convertible or exercisable, as applicable, the "**Securities**"), to purchase PIPE Securities in an amount equal to the Warrant Coverage (as defined below) on the terms described therein, in the respective amounts set forth next to the name of each Purchaser on its signature page hereto (as to each Purchaser, the "**Purchase Price**"), subject to raising a minimum of two million Dollars ($2,000,000) (the "**Loan Amount**");

WHEREAS, there shall be certain registration rights as to the Securities pursuant to the terms of a registration rights Agreement in the form attached hereto as Exhibit C (the "**Registration Rights Agreement**");

WHEREAS, the Loan Amount is intended to be used by the Company to satisfy its obligations under this Agreement and make unsubordinated, payable on demand loans to one or more Targets (as defined below) on terms and conditions acceptable to Broadband Capital Management LLC ("**Broadband**"), and such other use of proceeds as are approved in writing by Broadband (collectively, the "**Use of Proceeds**"). The entities set forth on Schedule 1 hereto and Use of Proceeds shall be deemed approved by Broadband, as such list may be amended from time to time upon the mutual consent of the Company and Broadband (the "**Targets**");

WHEREAS, in order to implement the intended Use of Proceeds, the Loan Amount shall be deposited by each Purchaser directly into an escrow account (the "**Escrow Account**") established at Continental Stock Transfer and Trust Company (the "**Escrow Agent**"), such Loan Amount to be held and released in accordance with the terms of an escrow agreement in the form attached hereto as Exhibit D (the "**Escrow Agreement**");

WHEREAS, the Note shall be secured by a first perfected security interest in all of the tangible and intangible assets of the Company and all of its subsidiaries, whether now existing and listed on Schedule 3.1(a) or hereafter acquired or created by the Company (the "**Subsidiaries**"), whether such assets are now owned or hereafter created or acquired by the Company and/or its Subsidiaries, including, without limitation, the Loan Amount deposited in the Escrow Account, the securities pledged pursuant to the terms of the Principal Stockholder and Pledge Agreement (as defined below) and any loans to Targets (the "**Assets**"), all in accordance with the terms of a security and pledge agreement in the form attached hereto as Exhibit E (the "**Security and Pledge Agreement**");

WHEREAS, each of the stockholders of the Company listed on Schedule 2 hereto (the "**Principal Stockholders**") shall enter into a Principal Stockholder and Pledge Agreement, in the form attached hereto as Exhibit F (the "**Principal Stockholder and Pledge Agreement**"), pursuant to which each Principal Stockholders shall, jointly and severally, pledge to Purchasers their securities in the Company as security for the obligations of the Company under the Note, which securities pledge shall be effectuated through delivery to Broadband (as Collateral Agent for Purchasers) one or more stock certificates, together with fully executed stock power with medallion guarantee affixed thereto, or shall be subject to a standard securities account control agreement of such Principal Stockholder's broker (the "**Control Agreement**," and with this Agreement, the Note, the Warrant, the Registration Rights Agreement, the Escrow Agreement, the Security and Pledge Agreement, the Principal Stockholder and Pledge Agreement and any exhibits and schedules thereto, the "**Transaction Documents**"); and

WHEREAS, each Purchaser desires to appoint Broadband as collateral agent under the Transaction Documents.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Purchaser agree as follows:

1. Purchase and Sale of the Securities.

(a) Closing. On the Closing Date (as defined below), upon the terms and subject to the conditions set forth herein:

(i) the Company hereby agrees to sell to each Purchaser, and the Purchaser hereby agrees to purchase from the Company, (i) a Note and (ii) a Warrant, in consideration of the Purchase Price set forth on such Purchaser's signature page hereto. For purposes of this Agreement, "**Closing Date**" means the date on which all of the Transaction Documents (as defined herein) have been executed and delivered by the parties thereto, and all conditions precedent to (i) Purchasers' obligations to pay the Purchase Price and (ii) the Company's obligation to deliver the Securities, in each case, have been satisfied or waived.

(ii) Each Purchaser shall deliver the Purchase Price, via wire transfer of immediately available funds, to the Escrow Agent, using the following wire instructions and to the following account:

[ESCROW ACCOUNT INFORMATION

AND WIRE TRANSFER INSTRUCTIONS

TO BE INSERTED]

and the Company shall deliver to each Purchaser the Transaction Documents and evidence of filing of UCC Financing Statements with the State of Nevada in the form attached hereto as Exhibit G ("**UCC Financing Statements**"). The Company and each Purchaser shall each deliver to the other items set forth in Section 1(b) deliverable at the closing (the "**Closing**"). Upon waiver or satisfaction of the covenants and conditions set forth in Sections 1(b) and 1(c), the Closing shall occur at such location within the United States as the parties shall mutually agree.

(b) Deliverables.

(i) On or prior to the Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

A. this Agreement, duly executed by the Company;

B. a Note, duly executed by the Company, in the Purchase Price set forth on such Purchaser's signature page;

C. a Warrant, duly executed by the Company, to purchase a number of PIPE Securities equal to (x) the Warrant Coverage (as defined below) multiplied by (y) the Purchase Price of such Purchaser, (z) divided by the PIPE Share Price, and exercisable for five (5) years from the Closing Date at an exercise price per share equal to 120% of the PIPE Share Price. "**Warrant Coverage**" means (a) 50% of such Purchaser's Purchase Price, if the PIPE Offering closes on or prior to 120 days after the Closing Date, (b) 75% such Purchaser's Purchase Price, if the PIPE Offering closes after 120 days but before 150 days, after the Closing Date, and (c) 100% of such Purchaser's Purchase Price, if the PIPE Offering closes after 150 days after the Closing Date;

D. the Registration Rights Agreement, duly executed by the Company;

E. the Escrow Agreement, duly executed by the Company and the Escrow Agent;

F. the Security and Pledge Agreement, duly executed by the Company;

G. the original stock certificates representing all securities of the Subsidiaries;

H. the Principal Stockholder Pledge Agreement, duly executed by each of the Principal Stockholders;

I. the Control Agreement from each Principal Stockholder, duly executed by all parties thereto;

J. evidence of filing of the UCC Financing Statements in a form reasonably satisfactory to Purchasers' counsel;

K. an engagement letter with Broadband, duly executed by the Company, pursuant to which the Company agrees to engage Broadband as the placement agent for and/or underwriter of the PIPE Offering on terms mutually agreeable to both parties (the "**Engagement Letter**");

L. evidence of payment by the Company of all legal and due diligence expenses of Broadband the Purchasers, including, without limitation, fees and expenses of legal counsel, investigative and other consultants and travel, such evidence to be in a form reasonably satisfactory to Purchaser's counsel;

M. a certificate of the Company's Secretary, dated the Closing Date and in a form reasonably satisfactory to Purchasers' counsel, certifying the truth and correctness of each of the following documents, copies of which shall be attached to such certificate: (i) the certificate of incorporation and bylaws of the Company, each as in effect on the Closing Date; (ii) resolutions of the Company's board of directors authorizing, among other things, the Company's entry into the Transaction Documents, the delivery of the Securities and the granting of the security interest in favor of the Purchaser; and (iii) resolutions of the Company's stockholders authorizing, among other things, the Company's entry into the Transaction Documents, the delivery of the Securities and the granting of the security interest in favor of the Purchaser;

N. a certificate of the Company's President, dated the Closing Date and in a form reasonably satisfactory to Purchasers' counsel, certifying the matters set forth in Sections 1(c)(ii)(B) and (C); and

O. the legal opinion of the Company's counsel, dated the Closing Date, in the form attached hereto as Exhibit H.

(ii)On or prior to the Closing Date, each Purchaser, severally and not jointly, shall deliver or cause to be delivered to the Company the following:

A. this Agreement, duly executed by such Purchaser;

B. the Escrow Agreement, duly executed by Broadband;

C. the Security and Pledge Agreement, duly executed by Broadband;

D. the Purchase Price by wire transfer to the Escrow Account; and

E. the Registration Rights Agreement, duly executed by such Purchaser.

(c)Closing Conditions.

(i)The obligations of the Company hereunder in connection with the Closing are subject to the waiver or satisfaction of the following conditions:

A. the accuracy in all material respects on the Closing Date of the representations and warranties of Purchaser contained herein;

B. all obligations, covenants and agreements of Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

C. the delivery by Purchaser of the items set forth in Section 1(b)(ii) of this Agreement.

(ii)The obligations of Purchaser hereunder in connection with the Closing are subject to the waiver or satisfaction of the following conditions:

A. Completion of due diligence to Purchasers' sole satisfaction;

B. the accuracy in all material respects (except that any representation and warranty that is qualified as to "materiality" or "Material Adverse Effect" shall be true and correct in all respects) when made and on the Closing Date of the representations and warranties of the Company contained herein (except for those which by their terms specifically refer to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects, save for any representation and warranty that is qualified as to "materiality" or "Material Adverse Effect," which shall be true and correct in all respects, as of such earlier date);

C. all obligations and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed; and

D. the delivery by the Company of the items set forth in Section 1(b)(i) of this Agreement.

2. Security; Principal Stockholders' Pledge.

(a) In accordance with the terms and the conditions of the Security and Pledge Agreement, the Company agrees to secure the repayment of the Loan Amount, all accrued and unpaid interest (as defined below) thereon and all other payments due thereunder, as well as all of the Company's obligations thereunder, by creating a UCC secured pledge of the Assets for the benefit of all Purchasers and Broadband, as collateral agent for the Purchasers, and by executing the Security and Pledge Agreement and any exhibits thereto (the "**UCC Pledge**"). From time to time, Purchaser may demand, and the Company shall execute, such additional documents as may be reasonably necessary to maintain the UCC Pledge.

(b) The Company shall cause each of the Principal Stockholders to execute and deliver a Pledge Agreement and a Control Agreement, pursuant to which the Principal Stockholders shall guarantee all of the Company's obligations under the Notes and secure such guarantee by pledging their respective securities in the Company, all as more fully set forth in such Principal Stockholder Pledge Agreements.

3. Representations and Warranties of the Company. The Company represents and warrants to each Purchaser as follows:

(a) Subsidiaries. The Company's Subsidiaries as of the date hereof are listed on Schedule 3.1(a). Except as set forth on Schedule 3.1(a) , the Company owns, directly or indirectly, 100% of each Subsidiary and such ownership interest is free and clear of any liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued, fully paid and non-assessable and free of preemptive and similar rights to purchase securities. Neither the Company nor the Subsidiaries are subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of the capital stock of any Subsidiary or any convertible securities, rights, warrants or options of the type described in the preceding sentence. Neither the Company nor any Subsidiary is party to, nor has any knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of any Subsidiary.

(b) Organization and Qualification. Each of the Company and each Subsidiary is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, and has the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted and contemplated to be conducted. Each of the Company and each Subsidiary is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in a material adverse effect on the business, condition (financial or otherwise), operations, prospects or property of the Company or a Subsidiary, taken as a whole ("**Material Adverse Effect**"), and no proceeding has been initiated in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the board of directors or the Company's stockholders in connection therewith, other than in connection with the Required Approvals (as defined herein). Each Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except: (i) as may be limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(d) No Conflicts. The execution, delivery and performance by the Company of the Transaction Documents, the issuance and sale of the Securities, the UCC Pledge and the consummation by it of the transactions contemplated hereby and thereby to which it is a party do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or the Subsidiary is a party or by which any property or asset of the Company or the Subsidiary is bound or affected, or (iii) subject to the Required Approvals (as defined below), conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. Neither the Company nor any Subsidiary is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than the filing of Form D with the Securities and Exchange Commission (the "**Commission**") and such filings as are required to be made under applicable state securities laws (the "**Required Approvals**").

(f) Issuance of the Securities. Each of the Note and the Warrant are duly authorized and, when issued and paid for in accordance with the terms of the applicable Transaction Documents, will be duly and validly issued, fully paid and non-assessable, and free and clear of all liens other than restrictions on transfer provided for in the Transaction Documents. The shares of Common Stock issuable upon conversion of the Note have been duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and non-assessable, free and clear of all Liens other than restrictions on transfer provided for in the Transaction Documents. The shares of Common Stock issuable upon exercise of the Warrant have been duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and non-assessable, free and clear of all liens other than restrictions on transfer provided for in the Transaction Documents. The Company has reserved from its duly authorized capital stock such number of securities for issuance of upon conversion or exercise of the Note and Warrant, as applicable, as well as any securities issuable in the PIPE Offering.

(g) Capitalization; Additional Issuances. All of the issued and outstanding securities of the Company as of the date hereof are as set forth in Schedule 3.1(g). Except as set forth in Schedule 3.1(g), as of the date hereof, there are no outstanding agreements or preemptive or similar rights affecting the Common Stock and no outstanding rights, warrants or options to acquire, or instruments convertible into or exchangeable for, or agreements or understandings with respect to the sale or issuance of, the Common Stock.

(h) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "**Action**") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the UCC Pledge or the issuance of the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company.

(i) Regulatory Permits. Each of the Company and each Subsidiary possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as currently conducted or as contemplated to be conducted, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("**Material Permits**"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(j) SEC Reports; Financial Statements. The Company has filed all reports required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the twelve months preceding the date hereof (or such shorter period as the Company was required by law to file such reports) (the foregoing materials being collectively referred to herein as the **"SEC Reports"**) on a timely basis or has timely filed a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with U.S. GAAP, except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by U.S. GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(k) Private Placement. Assuming the accuracy of Purchaser's representations and warranties set forth herein, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to Purchaser as contemplated hereby.

(l) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to Purchaser.

(m) Acknowledgment Regarding Purchaser's Purchase of Securities. The Company acknowledges and agrees that Purchaser is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by Purchaser or any of its representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchaser's purchase of the Securities. The Company further represents to each Purchaser and Selling Agents that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(n) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect. None of the Company's or any Subsidiary's employees is a member of a union that relates to such employee's relationship with the Company or such Subsidiary, and neither the Company nor any Subsidiary is a party to a collective bargaining agreement, and the Company and each Subsidiary believe that their relationships with their employees are good. No executive officer, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any Subsidiary to any liability with respect to any of the foregoing matters. The Company and each Subsidiary are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) Benefit Plans. All Benefit Plans (as defined below) of the Company currently in effect are listed on Schedule 3(o), and copies of all documentation relating to such Benefit Plans (including all plan documents, written descriptions of plans, actuarial reports and governmental filings and determinations with respect to such Benefit Plans) have been delivered or made available to each Investor. None of the Benefit Plans is a "Defined Benefit Plan" that would be subject to Part 3 of Title 1 of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder ("**ERISA**"), Section 412 of the Internal Revenue Code of 1986, as amended, or Title IV of ERISA. None of the Benefit Plans is a "multiemployer plan" (as such term is defined in Section 3(37) of ERISA) or a "single employer under multiple controlled groups" as described in Section 4063 of ERISA, and neither the Company nor any Affiliate has ever contributed to or had an obligation to contribute, or incurred any liability in respect of a contribution to any multiemployer plan. Each Benefit Plan has been operated in compliance with its terms in all respects, and each Benefit Plan complies, in all respects, with all provisions of applicable Law except as would not have a Material Adverse Effect. "**Benefit Plans**" means any Plan ever maintained, established or to which contributions have at any time been made by the Company or any of its Affiliates existing at the Closing Date or prior thereto, to which the Company contributes or has contributed, or under which any consultant, employee, former consultant, former employee or director or former director of the Company or any beneficiary thereof is covered, has ever been covered, is or has ever been eligible for coverage or has any benefit rights.

(p) Compliance. Neither the Company nor any Subsidiary: (i) is in violation of any order of any court, arbitrator or governmental body or (ii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(q) Environmental Matters. The Company has complied with and is in compliance with all federal, state, local and foreign statutes (civil and criminal), laws, ordinances, regulations, rules, permits, approvals, judgments, orders and decrees applicable to it or any of its properties, Leased Real Properties, assets, operations and businesses relating to environmental protection, and health and safety (collectively "**Environmental Laws**") including, without limitation, Environmental Laws relating to air, surface water and groundwater, land and the generation, storage, use, handling, transportation, treatment, release, threatened release, remediation, exposure to or disposal of Hazardous Wastes, Hazardous Materials and Hazardous Substances (as such terms are defined in any applicable Environmental Law), as well as oil, petroleum, petroleum products, asbestos or any substance containing asbestos, and polychlorinated biphenyls (collectively **"Hazardous Materials**"), (ii) the Company has obtained and fully complied with and is currently in full compliance with all environmental permits and other environmental approvals necessary for the conduct of its business and the operation of its properties, and has reported to the appropriate governmental or regulatory authorities, to the extent required by all Environmental Laws, all past and present sites owned and operated by the Company where Hazardous Materials have been treated, stored, disposed of or otherwise handled, (iii) to the knowledge of the Company, there is not nor has there been any condition, event, circumstance, practice, activity, incident which could reasonably be expected to give rise to any common law liability or liability pursuant to any Environmental Laws or otherwise form the basis of any claim, demand or litigation against the Company; (iv) there are no claims, demand, suits, judicial or administrative actions, governmental investigators or legal proceedings pending or, to the knowledge of the Company, threatened against the Company relating in any way to any Environmental laws, nor has the Company received notice of any violation of, or any claim alleging liability under, any Environmental Laws, (v) there have been no releases or threats of releases (as these terms are defined in Environmental Laws) of any Hazardous Materials at, from, in or on any property previously or currently owned or operated by the Company, except as permitted by Environmental Laws, and (vi) there is no on-site or off-site location to which the Company has transported or disposed of Hazardous Materials or arranged for the transportation of Hazardous Materials which is the subject of any federal, state, local or foreign enforcement action or any other investigation which could reasonably be expected to lead to any claim against the Company for any clean-up cost, remedial work, damage to natural resources, property damage or personal injury, including, but not limited to, any claim under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act or comparable state or local statutes or regulations, except as would not have a Material Adverse Effect.

(r) Title to Assets. The Company and each Subsidiary have good and marketable title in all personal property owned by them that is material to the business of the Company and each Subsidiary, in each case, free and clear of all liens, except for liens that do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and each Subsidiary and liens for the payment of federal, state, foreign or other taxes, the payment of which is neither delinquent nor subject to penalties ("**Permitted Liens**"). Any real property and facilities held under lease by the Company and each Subsidiary are held by them under valid, subsisting and enforceable leases with which the Company and each Subsidiary are in compliance. Neither the Company nor any Subsidiary owns any real property.

(s) Intellectual Property. The Company and each Subsidiary own all right, title and interest in, or possesses adequate and enforceable rights to use, all patents, patent applications, trademarks, trade names, service marks, copyrights, rights, licenses, franchises, trade secrets, confidential information, processes, formulations, software and source and object codes necessary for the conduct of their businesses, which are listed on Schedule 3(s) (collectively, the "**Intangibles**"). Neither the Company nor any Subsidiary has infringed upon the rights of others with respect to the Intangibles and neither the Company nor any Subsidiary have received notice that they have or may have infringed or are infringing upon the rights of others with respect to the Intangibles, or any notice of conflict with the asserted rights of others with respect to the Intangibles that could, individually or in the aggregate, or could reasonably be expected to have, have a Material Adverse Effect.

(t) Insurance. The Company and each Subsidiary are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and each Subsidiary are engaged. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect.

(u) Transactions With Affiliates and Employees. None of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company, is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $20,000, other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred in the ordinary course of business on behalf of the Company and (iii) other employee benefits, including stock option agreements, under any stock option plan of the Company.

(v) Certain Fees. Except for fees and expenses to be paid to Purchaser in connection with the Engagement Letter, no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other person with respect to the transactions contemplated by the Transaction Documents. Purchaser shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(w) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(x) Tax Returns. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary have filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(y) Foreign Corrupt Practices. None of the Company, any Subsidiary or, to the knowledge of the Company, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(z) No Disagreements with Accountants or Lawyers. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(aa) Indebtedness. Neither the Company nor any Subsidiary is in default with respect to, or liable under (x) any liabilities for borrowed money or amounts owed in excess of $25,000 (other than trade accounts payable incurred in the ordinary course of business), or (y) any guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(bb) Internal Controls. The Company is in compliance with the provisions of the Sarbanes-Oxley Act of 2002 currently applicable to the Company. The Cmpany and each Subsidiary maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that material information relating to the Company, including the Subsidiaries, is made known to the certifying officers by others within those entities, particularly during the period in which the Company's most recently filed periodic report under the Exchange Act, as the case may be, is being prepared. The Company's certifying officers have evaluated the effectiveness of the Company's controls and procedures as of the end of the period covered by the most recently filed periodic report under the Exchange Act (such date, the "**Evaluation Date**"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no significant changes in the Company's internal controls (as such term is defined in Item 308 of Regulation S-K) or, to the Company's knowledge, in other factors that could significantly affect the Company's internal controls. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with U.S. GAAP and the applicable requirements of the Exchange Act.

(cc) OFAC. None of the Company, any Subsidiary or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"); and the Company will not, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other person, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(dd) Full Disclosure. All of the disclosure furnished by or on behalf of the Company to Purchaser regarding the Company, its business and the transactions contemplated hereby is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

4. Representations and Warranties of Purchaser. Each Purchaser, severally and not jointly, represents and warrants to the Company, only with respect to itself, as follows:

(a) Purchaser is an "accredited investor" as defined by Rule 501 under the Securities Act. Purchaser is capable of evaluating the merits and risks of its investment in the Securities and has the ability and capacity to protect its interests.

(b) Purchaser understands that the Securities have not been registered. Purchaser understands that the Securities will not be registered under the Securities Act in reliance upon an exemption in reliance on Section 4(2) of the Securities Act.

(c) Purchaser acknowledges that Purchaser has such knowledge and experience in financial and business matters that Purchaser is capable of evaluating the merits and risks of an investment in the Securities and of making an informed investment decision with respect thereto.

(d) Purchaser is purchasing the Securities for investment purposes and not with a view to distribution or resale, nor with the intention of selling, transferring or otherwise disposing of all or any part thereof for any particular price, or at any particular time, or upon the happening of any particular event or circumstance, except selling, transferring, or disposing the Securities in compliance with all applicable provisions of the Securities Act, the rules and regulations promulgated by the Commission thereunder, and applicable state securities laws; and that an investment in the Securities is not a liquid investment.

(e) Purchaser has all requisite legal and other power and authority to execute and deliver this Agreement and to carry out and perform its obligations under the terms of this Agreement. This Agreement constitutes a valid and legally binding obligation of Purchaser, enforceable in accordance with its terms, except: (i) as may be limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(f) There are no actions, suits, proceedings or investigations pending against Purchaser or Purchaser's assets before any court or governmental agency (nor, to Purchaser's knowledge, is there any threat thereof) which would impair in any way Purchaser's ability to enter into and fully perform Purchaser's commitments and obligations under this Agreement or the transactions contemplated hereby.

(g) The execution, delivery and performance of and compliance with this Agreement and the issuance of the Securities to Purchaser will not result in any violation of, or conflict with, or constitute a default under, any of Purchaser's articles of incorporation or by-laws, or equivalent limited liability company, trust or partnership documents, if applicable, or any agreement to which Purchaser is a party or by which it is bound, nor result in the creation of any mortgage, pledge, lien, encumbrance or charge against any of the assets or properties of Purchaser or the Securities purchased by Purchaser.

(h) Purchaser is aware that the Securities will be (unless registered by the Company), when issued, "restricted securities" as that term is defined in Rule 144 of the general rules and regulations under the Securities Act, and may not be offered, sold or transferred except pursuant to an effective registration statement or an exemption from registration under the Securities Act.

(i) Purchaser understands that the Securities shall bear the following legend or one substantially similar thereto, which Purchaser has read and understands:

NEITHER THIS SECURITY NOR ANY SECURITY INTO WHICH IT MAY BE CONVERTED HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY SECURITY INTO WHICH IT MAY BE CONVERTED MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF AT ANY TIME IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM REGISTRATION.

(j) Any sales, transfers, or other dispositions of the Securities by Purchaser, if any, will be made in compliance with the Securities Act and all applicable rules and regulations promulgated thereunder.

(k) Purchaser further represents that the address of Purchaser set forth on the signature page is its principal place of business; that Purchaser is purchasing the Securities for Purchaser's own account and not, in whole or in part, for the account of any other person; and that Purchaser has not formed any entity, and is not an entity formed, for the purpose of purchasing the Securities.

(l) Purchaser represents and warrants that, except for the Engagement Letter, no finder, broker, agent, financial advisor or other intermediary, nor any purchaser representative or any broker-dealer acting as a broker, is entitled to any compensation in connection with the transactions contemplated by this Agreement.

5. Other Agreements.

(a) Certain Covenants of the Company. Until such time as the Loan Amount or any accrued fees or interest remain unpaid or outstanding, the Company shall comply and operate in accordance with all of the following covenants and agreements:

(i) Payment of Obligations. The Company will timely pay and discharge all of its material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

(ii) Conduct of Business and Maintenance. The Company will continue to engage in business of the same general type as now conducted by it and to preserve, renew and keep in full force and effect, its corporate existence and its assets, rights, privileges and franchises to the extent necessary or desirable in the normal conduct of business or to preserve the Collateral. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act of 1940, as amended.

(iii) Compliance with Laws. The Company will comply in all material respects with all applicable laws, ordinances, rules, regulations, decisions, orders and requirements of governmental authorities.

(iv) Use of Proceeds. None of the Loan Amount shall be used for any purpose other than the Use of Proceeds.

(v) Notice of Legal Matters. The Company shall notify Purchaser promptly after the Company shall obtain knowledge of any written notice of any legal or arbitral proceedings, and of all proceedings by or before any governmental authority, and each material development in respect of such legal or other proceeding affecting the Company, except proceedings which, if adversely determined, would not reasonably be likely to have a Material Adverse Effect.

(vi) Books and Records; Inspection and Audit Rights. The Company will keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Company will permit any representatives designated by Purchaser, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its business, assets, affairs, finances, prospects, and condition with its officers and independent accountants, all at such reasonable times during normal business hours and as often as reasonably requested. Promptly upon Purchaser's written request therefor, the Company shall deliver to Purchaser such documents and other evidence of the existence, good standing, foreign qualification and financial condition of the Company as Purchaser shall request from time to time.

(vii) Target Transactions, etc. Other than with respect to a Target Transaction, the Company shall not (i) merge or consolidate with or into any person, (ii) sell, assign, lease, license or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any person, or (iii) issue or sell securities of the Company (whether in one transaction or in a series of transactions) such that the shareholders of the Company as of the date of this Agreement hold or will hold less than a majority of the outstanding (on a fully-diluted basis) equity securities or voting power of the Company ("**Change of Control**").

(viii) Indebtedness and Liens. The Company shall not create or suffer to exist any debt or liens other than (i) debt incurred by the Company in the ordinary course of business, not to exceed $20,000 in the aggregate, (ii) debt which is subordinated in the right of payment to amounts payable to Purchaser pursuant to this Agreement on terms reasonably satisfactory to Purchaser; and (iii) Permitted Liens.

(ix) Investments, Loans, Acquisitions and Hedge Agreements. The Company shall not: (i) purchase or acquire or make any investment in any other person, (ii) purchase or acquire all or substantially all of the assets of any person or any division of any person; (iii) make any loan, advance or extension of credit to, or contribution to the capital of, any other person other than reimbursement of reasonable, *bona fide* and properly documented business expenses incurred on behalf of the Company; (iv) sell, whether at face value or at a discount, any account receivable of the Company; or (v) make any commitment or acquire any option or enter into any other arrangements for the purpose of making any of the foregoing investments, loans or acquisitions.

(x) Restricted Payments. The Company shall not declare, order, pay or make any dividend or distribution of assets or payment of cash, or both, directly or indirectly to any person.

(xi) Transactions with Affiliates. The Company shall not enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of the Company's business and upon fair and reasonable terms no less favorable to the Company than it would obtain in a comparable arm's-length transaction with a person not an Affiliate. "**Affiliate**" means, as applied to any person, (a) any other person directly or indirectly controlling, controlled by or under common control with, that person, (b) any other person that owns or controls (i) 10% or more of any class of equity securities of that person or any of its Affiliates or (ii) 10% or more of any class of equity securities (including any equity securities issuable upon the exercise of any option or convertible security) of that person or any of its Affiliates, or (c) any director, partner, officer, manager, agent, employee or relative of such person. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling," "controlled by," and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through ownership of voting securities or by contract or otherwise.

(b) Notice of Other Material Events. Until such time as the Loan Amount or any accrued fees or interest remain unpaid or outstanding, the Company shall provide notice of the following:

(i) The Company shall furnish to Purchaser prompt (but in no event more than two (2) business days after the relevant occurrence) written notice of the occurrence of any Event of Default or any other event or circumstance that results in, or could reasonably be expected to result in, a Material Adverse Effect.

(ii) The Company shall furnish to Purchaser written notice of the following not less than thirty (30) days prior to the occurrence thereof: (A) any change of the Company's corporate name or of any trade name used to identify it in the conduct of its business or in the ownership of its properties, (B) any change of the state in which the Company is organized or conducts business, (C) any change of the Company's principal place of business, or (D) any change of the Company's identity or corporate structure.

(iii) Each notice delivered under this Section shall be accompanied by a statement of the Company setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

(c) Further Assurances. At any time or from time to time after the execution hereof, the Company will promptly execute, deliver, verify, acknowledge, record and/or file any and all further documents and instruments (including financing statements and continuation statements), and promptly take any and all such other and further actions, as Purchaser may request in order to evidence or more fully effectuate the transactions and security arrangements contemplated hereby and to otherwise carry out the terms hereof.

(d) Reservation of Shares. The Company shall at all times reserve and keep available out of its authorized and unissued capital stock, solely for the purpose of providing for the exercise of the conversion rights provided for under the Note and Warrant, such number of shares of Common Stock and other securities as may be issued in the PIPE Offering, as shall, from time to time, be sufficient for issuance upon conversion of such Note and Warrant in full.

(e) Right of First Offer. Subject to the terms and conditions of this Section 5(e) and applicable securities laws, and for a period starting from the Closing Date and ending twelve months from the closing date of the PIPE Offering, if the Company proposes to offer or sell any New Securities (as defined below), the Company shall first offer all of such New Securities to each Purchaser on the basis of its prorata portion of the Loan Amount (as to each Purchaser, the "**Pro Rata Portion**"). Each such Purchaser shall be entitled to apportion the right of first offer hereby granted to it among itself and its Affiliates in such proportions as it deems appropriate.

(i) The Company shall give notice (the "**Offer Notice**") to each Purchaser, stating (A) its bona fide intention to offer such New Securities, (B) the number of such New Securities to be offered, and (C) the price and terms, if any, upon which it proposes to offer such New Securities.

(ii) By notification to the Company within twenty (20) days after the Offer Notice is given, Purchaser may elect to purchase or otherwise acquire, at the price and on the terms specified in the Offer Notice up to its Pro Rata Portion of such New Securities, at Purchaser's election. The closing of any sale pursuant to this Section shall occur within the later of thirty (30) days of the date that the Offer Notice is given and the date of initial sale of New Securities pursuant to Section 5(e)(iii).

(iii) At the expiration of such twenty (20) day period, the Company shall promptly notify each Purchaser that elects to purchase or acquire all the shares available to it (each, a "**Fully Exercising Purchaser**") of any other Purchaser's failure to do likewise. During the ten (10) day period commencing after the Company has given such notice, each Fully Exercising Purchaser may, by giving notice to the Company, elect to purchase or acquire, in addition to the number of shares specified above, the balance of such New Securities for which Purchasers were entitled to subscribe but that were not subscribed for by the Purchasers. If there is more than one Fully Exercising Purchaser, then each such Fully Exercising Purchaser is entitled to purchase up to its Pro Rata Portion of the remaining number of New Securities. The closing of any sale pursuant to this Section 5(e)(iii) shall occur within the later of ninety (90) days of the date that the Offer Notice is given and the date of initial sale of New Securities pursuant to Section 5(e)(ii).

(iv) If all New Securities referred to in the Offer Notice are not elected to be purchased or acquired as provided in Section 5(e)(iii), the Company may, during the ninety (90) day period following the expiration of the periods provided in Section 5(e)(iii), offer and sell the remaining unsubscribed portion of such New Securities to any person or persons at a price not less than, and upon terms no more favorable to the offeree than, those specified in the Offer Notice. If the Company does not enter into an agreement for the sale of the New Securities within such period, or if such agreement is not consummated within thirty (30) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such New Securities shall not be offered unless first reoffered to Purchaser in accordance with this Section 5(e).

(v) "**New Securities**" includes all securities, whether debt or equity, offered by the Company or any Subsidiary, but shall not include (A) shares of Common Stock, options or convertible securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock; (B) shares of Common Stock or options issued to employees or directors of, or consultants or advisors to, the Company or any Subsidiary pursuant to a plan, agreement or arrangement approved by the board of directors of the Company; or (C) shares of Common Stock or convertible securities actually issued upon the exercise of options or shares of Common Stock actually issued upon the conversion or exchange of convertible securities, in each case provided such issuance is pursuant to the terms of such option or convertible security.

6. Events of Default.

(a) Each of the following events, individually, shall constitute an "**Event of Default**:"

(i) the Company shall fail to pay any Loan Amount when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(ii) the Company shall fail to pay any accrued but unpaid interest when and as the same shall become due and payable;

(iii) the Company shall fail to pay any fee or any other amount payable under any of the Transaction Documents, when and as the same shall become due and payable;

(iv) any representation or warranty made by or on behalf of the Company in or in connection with any Transaction Document, or in any report, certificate or other document furnished pursuant to or in connection with any Transaction Document, shall prove to have been incorrect in any material respect when made or deemed made or shall be breached;

(v) the Company shall fail to observe or perform any covenant, condition or agreement contained in any Transaction Document (other than those specified in clause (i), (ii), (iii), or (iv) of this Section 6 and such failure shall continue unremedied for a period of ten (10) days after notice thereof from Purchaser to the Company;

(vi) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Company or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for ninety (90) days or an order or decree approving or ordering any of the foregoing shall be entered;

(vii) the Company shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (vi) of this Section 6, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(viii) the Company shall be unable, admit in writing its inability, or fail generally, to pay its debts as they become due;

(ix) one or more final judgments for the payment of money in an aggregate amount in excess of $25,000 shall be rendered against the Company and the same shall remain undischarged for a period of twenty (20) consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Company to enforce any such judgment;

(x) any default by the Company under, or the occurrence of any event of default as defined in, any other indebtedness owed by the Company;

(xi) any event causing or resulting in the UCC Pledge not to be a first priority perfected lien on the Assets;

(xii) any event, transaction, action or omission of or involving the Company shall occur which Purchaser reasonably believes will result in a Material Adverse Effect;

(xiii) any of this Agreement or the Note shall cease to be, or shall be asserted by the Company or other obligor thereunder not to be, in full force and effect; or

(xiv) a Change of Control shall occur, other than a Target Transaction

(b) Remedies. Notwithstanding anything to the contrary in any Transaction Document, upon the occurrence of an Event of Default, and in every such event (other than an event with respect to the Company described in clauses (vi), (vii) or (viii) of Section 6, at any time during the continuance of such event, Purchaser may, at its sole election, by notice to the Company, declare the Loan Amount then outstanding to be due and payable in whole (or in part, in which case any Loan Amount not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the outstanding Loan Amount so declared to be due and payable, together with all fees and other payment obligations of the Company accrued but unpaid under the Transaction Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, and in case of any event with respect to the Company described in clauses (vi), (vii) or (viii) of Section 6, the Loan Amount then outstanding, together with all fees and other payment obligations of the Company accrued but unpaid under the Transaction Documents, shall automatically become due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company.

7. Indemnification by the Company. The Company shall indemnify each of Purchaser and its officers, directors, shareholders, members, partners, employees, agents and Affiliates in respect of, and hold each of them harmless from and against, any and all Losses (as defined below, and whether or not involving any person not a party to this Agreement) suffered, incurred or sustained by any of them or to which any of them becomes subject resulting from, arising out of or relating to (a) any material misrepresentation on the part of the Company, (b) a breach by the Company of any of the representations and warranties contained herein, or (c) any non-fulfillment of or failure to perform any covenant or agreement on the part of the Company contained in this Agreement or in any of the Transaction Documents (including any certificates delivered in connection herewith or therewith). If and to the extent that the indemnification hereunder is finally determined by a court of competent jurisdiction to be unenforceable, the Company shall make the maximum contribution to the payment and satisfaction of the indemnified Losses as shall be permissible under applicable laws. "**Losses**" means any and all damages, fines, fees, taxes, penalties, deficiencies, diminution in value of investment, losses and expenses, including interest, reasonable expenses of investigation, court costs, reasonable fees and expenses of attorneys, accountants and other experts or other expenses of litigation or other proceedings or of any claim, default or assessment (including, without limitation, fees and expenses of attorneys, incurred in connection with (i) the investigation or defense of any claim made by a person not a party hereto and (ii) asserting or disputing any rights under this Agreement against any party hereto or otherwise).

8. Appointment of Collateral Agent; Indemnification of Collateral Agent.

(a) Appointment of Collateral Agent. Each Purchaser hereby appoints, authorizes and empowers Broadband to act as the collateral agent and as representative, attorney-in-fact and agent, with full power of substitution, to act in the name, place and stead of each of Purchaser, to take all actions necessary or appropriate in its judgment for the accomplishment of the terms of any of the Purchase Document, and to act on behalf of each Purchaser and to do or refrain from doing all such further acts and things, to make all decisions and determinations, and to execute, deliver and receive all such documents, as it shall deem necessary or appropriate in conjunction with any of the transactions contemplated by the Transaction Documents. This appointment may be terminated, and such termination shall be effective, upon the earlier of Broadband's resignation as collateral agent and the written consent of the holders of a majority-in-interest of the Notes.

(b) Limitation of Liability; Indemnification. In addition to any and all protections and rights that may be granted hereunder to Broadband as collateral agent, to the maximum extent permissible by law, Broadband will incur no liability with respect to any action or inaction taken or failed to be taken in connection with its services as the collateral agent, except its own willful misconduct or gross negligence. In all questions arising under any of the Loan Documents, Broadband may rely on the advice of counsel of its choosing, and Broadband will not be liable to any party to any of the Loan Documents or any other person or party for anything done, omitted or suffered in good faith by it in its capacity as the collateral agent based on such advice. Each of the Purchasers (a) agrees, jointly and severally, to indemnify, defend and save harmless Broadband from and against any and all loss, liability or expense (including the reasonable fees and expenses of outside counsel and experts and their staffs and all expense of document location, duplication and shipment) arising out of or in connection with Broadband's execution and performance of its duties as collateral agent under any of the Loan Documents (a "**Collateral Agent Expense**"), except to the extent that such Collateral Agent Expense is finally adjudicated to have been primarily caused by the gross negligence or willful misconduct of Broadband, in its capacity as collateral agent, and (b) acknowledges and agrees that the foregoing indemnities shall survive Broadband's resignation as the collateral agent or the termination of any of the Transaction Documents. In no event shall Broadband, in its capacity as the collateral agent, be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if Broadband has been advised of the likelihood of such loss or damage and regardless of the form of action.

9. Miscellaneous.

(a) The Company agrees not to transfer or assign this Agreement or any of the Company's rights or obligations herein and Purchaser agrees that the transfer or assignment of the Securities acquired pursuant hereto shall be made only in accordance with all applicable laws.

(b) This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. The Transaction Documents constitute the entire agreement between the parties hereto with respect to the subject matter hereof and may be amended or waived only by a written instrument signed by all parties.

(c) Any notice or other document required or permitted to be given or delivered to the parties hereto shall be in writing and sent: (i) by fax, if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail, with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid), to the following addresses:

(i) If to the Company, at:

International Surf Resorts, Inc.
1097 Country Coach Drive, Suite 705
Henderson, Nevada 89002
Attention of CEO
Tel: (888) 689-0930
Fax: (949) 706-1475

With a copy (which shall not constitute notice) to:

Sichenzia Ross Friedman Ference LLP
61 Broadway, 32nd Floor
New York, New York 10006
Attention of Harvey Kesner, Esq.
Tel: (212) 930-9700
Fax: (212) 930-9725

(ii) If to a Purchaser, to the address set forth on its signature page hereto.

With copies (which shall not constitute notice) to:

Broadband Capital Management LLC
712 Fifth Avenue, 22nd floor
New York N.Y. 10019
Attention of Philip Wagenheim
Tel: (212) 277-5300
Fax: (212) 702-9830

and:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
The Chrysler Center
666 Third Avenue
New York, NY 10017
Attention of Kenneth R. Koch, Esq.
Tel: (212) 935-3000
Fax: (212 983-3115

(d) No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed by all parties hereto. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

(e) This Agreement shall be enforced, governed and construed in all respects in accordance with the laws of the State of New York, as such laws are applied by the New York courts to contracts solely performed within its borders, except with respect to the conflicts of law provisions thereof.

(f) Any legal suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby shall be instituted exclusively in New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York. The parties hereto hereby: (i) waive any objection which they may now have or hereafter have to the venue of any such suit, action or proceeding, and (ii) irrevocably consent to the jurisdiction of the New York Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such suit, action or proceeding. The parties further agree to accept and acknowledge service of any and all process which may be served in any such suit, action or proceeding in the New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

(g) If any provision of this Agreement is held to be invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed modified to conform with such statute or rule of law. Any provision hereof that may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provisions hereof.

(h) The Company understands and agrees that money damages may not be a sufficient remedy for any breach of this Agreement by the Company, and that Purchaser shall be entitled to equitable relief, including an injunction and specific performance, as a remedy for any such breach, without the necessity of establishing irreparable harm or posting a bond therefor. Such remedies shall not be deemed to be the exclusive remedies for a breach by the Company of this Agreement, but shall be in addition to all other remedies available at law or equity to Purchaser.

(i) All pronouns and any variations thereof used herein shall be deemed to refer to the masculine, feminine, singular or plural, as identity of the person or persons may require.

(j) This Agreement may be executed in counterparts and by facsimile, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

Company Signature Page

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

INTERNATIONAL SURF RESORTS, INC.

By: _____
Name:
Title:

Purchaser Signature Page

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

[PURCHASER]

By: _____
Name:
Title:

Purchase Price: _____

Address for Notice:

_____
_____
Attention of: _____
Telephone: _____
Facsimile:_____

Broadband Signature Page

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

BROADBAND CAPITAL MANAGEMENT LLC

By: _____
Name:
Title:

(but only with respect to its appointment as collateral agent pursuant to Section 8 hereof)

Schedule 1

LIST OF TARGETS

BioZone Holdings LLC
BioZone Laboratories, Inc.
EquaChem LLC
Equalon Pharma LLC
580 Garcia Properties LLC
BetaZone Laboratories, LLC

Schedule 2

LIST OF PRINCIPAL STOCKHOLDERS

ISR Investments LLC

Exhibit A

FORM OF CONVERTIBLE PROMISSORY NOTE

THIS NOTE AND THE SHARES OF CAPITAL STOCK ISSUABLE UPON ANY CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED TO ANY PERSON, INCLUDING A PLEDGEE, UNLESS (1) EITHER (A) A REGISTRATION STATEMENT WITH RESPECT THERETO SHALL BE EFFECTIVE UNDER THE SECURITIES ACT, OR (B) THE COMPANY SHALL HAVE RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IS AVAILABLE, AND (2) THERE SHALL HAVE BEEN COMPLIANCE WITH ALL APPLICABLE STATE SECURITIES OR "BLUE SKY" LAWS.

INTERNATIONAL SURF RESORTS, INC.

SECURED CONVERTIBLE PROMISSORY NOTE

$2,250,000

New York, New York
February ___, 2011

INTERNATIONAL SURF RESORTS, INC., a Nevada corporation (the "**Company**"), for value received, hereby promises to pay to Broadband Capital Management LLC or its assigns (the "**Holder**"), the principal amount of Two Million Two Hundred Fifty Thousand Dollars ($2,250,000) (the "**Principal Amount**"), together with interest (computed on the basis of a 365-day year for the actual number of days elapsed) from the date hereof on the unpaid balance of such Principal Amount from time to time outstanding at the rate of ten percent (10%) per annum ("**Interest**") until paid in full or converted as provided herein.

This Note is one of a series of Notes issued pursuant to the terms of the Securities Purchase Agreement, by and between the Company and each Purchaser signatory thereto, dated the date hereof (the "**Purchase Agreement**"), which contains, among other things, provisions for acceleration of the maturity hereof upon the happening of an Event of Default (as defined therein). Payment of all amounts and all of the Company's obligations under this Note are secured by a first priority security interest in favor of the Holder on the Company's Assets (as defined in the Purchase Agreement) pursuant to the terms of that certain Security and Pledge Agreement, dated the date hereof, by and between the Company and the Holder and guaranteed and secured by certain pledged securities of the Principal Stockholders (as defined in the Purchase Agreement) pursuant to the terms of that certain Guarantee and Pledge Agreement dated the date hereof. Capitalized terms used herein but otherwise not defined shall have the definitions ascribed to them in the Purchase Agreement.

1. Repayment of the Note. The Principal Amount outstanding hereunder shall be payable in cash on the earlier of (a) six (6) months from the date hereof and (b) the closing date of the PIPE Offering (such earlier date being the "**Maturity Date**"). The entire Principal Amount and all accrued and unpaid Interest shall be due and payable on the earlier of (1) the Maturity Date and (2) the occurrence of an Event of Default (as defined below).

2. No Prepayment of the Note. The Principal Amount and Interest thereon shall not be prepaid in whole or in part by the Company, except in connection with the consummation of the PIPE Offering, in which case the Holder shall elect, at its sole option, either to (1) convert all of the Principal Amount then outstanding, plus all accrued and unpaid Interest thereon, into the PIPE Securities at a price per share or unit, as the case may be, equal to 80% of the PIPE Share Price (a "**PIPE Conversion**") or (2) require the Company to repay the Principal Amount then outstanding plus all accrued and unpaid Interest on the Note in cash (a "**PIPE Redemption**"). In the event that this Note is prepaid or converted before the date that is six months from the Closing Date ("**Prepayment Date**"), the Company shall pay to the Holder, in addition to any and all other amounts due and payable hereunder, a prepayment or early conversion penalty, as applicable, in an amount equal to (x) the Principal Amount (y) divided by $2,000,000 and (z) multiplied by $100,000 (the "**Early Penalty Payment**" and, with the Target Transaction Payment, "**Other Payments**"), by no later than two (2) business days after the Prepayment Date.

3. Target Transaction Payment. If the Target Transaction has not closed on or prior to the date that is six months from the Closing Date (the "**Target Transaction Deadline**"), in addition to any and all other amounts due and payable hereunder, the Company shall pay one hundred fifty percent (150%) of any portion of the Principal Amount then outstanding plus all accrued and unpaid Interest thereon (the "**Target Transaction Payment**"), by no later than two (2) business days after the Target Transaction Deadline.

4. Mechanics of Conversion or Redemption. The Company shall cause notice of the closing of the PIPE Offering to be mailed to the Holder in accordance with the notice provisions of the Purchase Agreement at least five (5) days prior to the closing of such PIPE Offering. Promptly upon receipt of such notice, the Holder shall notify the Company of its election of a PIPE Conversion or a PIPE Redemption, the Principal Amount and accrued and unpaid Interest to be converted or redeemed, as applicable, and the date on which such election shall be effective (the "**Election Notice**"). The Company shall, (a) in the event of a PIPE Redemption, pay the Principal Amount and all accrued and unpaid Interest thereon as set forth in such Election Notice or, (b) in the event of a PIPE Conversion, issue and deliver to the Holder, or to its nominees, a certificate or certificates for the number of shares of capital stock or units, as applicable of the PIPE Securities (the "**Conversion Stock**") to which the Holder is entitled.

5. No Fractional Shares. No fractional shares of Conversion Stock shall be issued by the Company. In lieu thereof, the shares of Common Stock otherwise issuable shall be rounded up to the nearest whole share of Conversion Stock.

6. Termination of Rights Under this Note. This Note shall no longer be deemed to be outstanding, and all rights with respect to this Note shall immediately cease and terminate, upon receipt by the Holder of (a)(i) the Principal Amount outstanding and all accrued and unpaid Interest thereon, in the event of a PIPE Redemption or, (ii) the Conversion Stock, in the event of a PIPE Conversion, and (b) the Target Transaction Payment and Early Penalty Payment, if applicable.

7. Taxes or other Issuance Charges. The Company shall pay any and all taxes or other expenses that may be payable in respect of any issuance or delivery of the Conversion Stock in the event of a PIPE Conversion.

8. Event of Default. Upon the occurrence at any time of any Event of Default, the entire unpaid Principal Amount and all accrued and unpaid Interest thereon, plus all Other Payments, if applicable, shall become immediately due and payable in cash without notice or demand. The Holder shall have then, or at any time thereafter, all of the rights and remedies afforded by the Uniform Commercial Code as from time to time in effect in the State of Nevada or afforded by other applicable law.

9. Non-Waiver. The failure of the Holder to enforce or exercise any right or remedy provided in this Note or at law or in equity upon any default or breach shall not be construed as waiving the rights to enforce or exercise such or any other right or remedy at any later date. No exercise of the rights and powers granted in or held pursuant to this Note by the Holder, and no delays or omission in the exercise of such rights and powers shall be held to exhaust the same or be construed as a waiver thereof, and every such right and power may be exercised at any time and from time to time.

10. Waiver by the Company. The Company hereby waives presentment, protest, notice of protest, notice of nonpayment, notice of dishonor and any and all other notices or demands relative to this Note, except as specifically provided herein.

11. Usury Savings Clause. The Company and the Holder intend to comply at all times with applicable usury laws. If at any time such laws would render usurious any amounts due under this Note under applicable law, then it is the Company's and Holder's express intention that the Company not be required to pay Interest on this Note at a rate in excess of the maximum lawful rate, that the provisions of this Section 10 shall control over all other provisions of this Note which may be in apparent conflict hereunder, that such excess amount shall be immediately credited to the balance of the Principal Amount of this Note, and the provisions hereof shall immediately be reformed and the amounts thereafter decreased, so as to comply with the then applicable usury law, but so as to permit the recovery of the fullest amount otherwise due under this Note.

12. Holder Not a Stockholder. The Holder shall not have, solely on account of such status as a holder of this Note, any rights of a stockholder of the Company, either at law or in equity, or any right to any notice of meetings of stockholders or of any other proceedings of the Company until such time as this Note has been converted, at which time the Holder shall be deemed to be the holder of record of the Conversion Stock, as applicable, notwithstanding that the transfer books of the Company shall then be closed or certificates representing such Conversion Stock shall not then have been actually delivered to the Holder.

13. Miscellaneous.

(a) Governing Law; Venue. This Note shall be governed by and interpreted in accordance with the Uniform Commercial Code as from time to time in effect in the State of Nevada as to matters within the scope thereof, and, with respect to all other matters, shall be governed by and interpreted in accordance with the laws of the State of New York, without regard for any conflict of laws. The Company irrevocably consents to the exclusive jurisdiction of any Federal or State of New York sitting in New York County, New York in connection with any action or proceeding arising out of or relating to this Note, any document or instrument delivered pursuant to, in connection with or simultaneously with this Note, or a breach of this Note or any such document or instrument.

(b) Successors and Assigns. This Note and the obligations hereunder shall inure to the benefit of and be binding upon the respective successors and assigns of the parties; provided, however, that neither party may assign any of its rights or obligations hereunder without the prior written consent of the other, except that the Holder may assign all or any portion of its rights hereunder to its Affiliate without such consent by giving written notice of such assignment to the Company. Assignment of all or any portion of this Note in violation of this Section shall be null and void.

(c) Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be delivered in accordance with Section 8(c) of the Purchase Agreement.

(d) Amendment; Waiver. No modification, amendment or waiver of any provision of this Note shall be effective unless in writing and approved by the Company and the Holder.

(e) Invalidity. Any provision of this Note which may be determined by a court of competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(f) Section and Paragraph Headings. The section and paragraph headings contained herein are for convenience only and shall not be construed as part of this Note.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.
SIGNATURE PAGE FOLLOWS.]

IN WITNESS WHEREOF, this Note has been executed and delivered on the date first above written by the duly authorized representative of the Company.

INTERNATIONAL SURF RESORTS, INC.

By:_____

Name:_____

Title:_____

Exhibit B

FORM OF WARRANT

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND, ACCORDINGLY, MAY NOT BE TRANSFERRED UNLESS (I) SUCH SECURITIES HAVE BEEN REGISTERED FOR SALE PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, (II) SUCH SECURITIES MAY BE SOLD PURSUANT TO RULE 144, OR (III) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

INTERNATIONAL SURF RESORTS, INC.

Warrant

Warrant Number: [●]
Date of Issuance: February [●], 2011 (**"Issuance Date"**)

INTERNATIONAL SURF RESORTS, INC., a Nevada corporation (the **"Company"**), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, [●], the registered holder hereof or its permitted assigns (the **"Holder"**), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon exercise of this Warrant (including any Warrants issued in exchange, transfer or replacement hereof, this **"Warrant"**), at any time or times on or after the date hereof (the **"Exercisability Date")**, but not after 11:59 p.m., New York time, on the Expiration Date (as defined below) and/or other securities, the number of shares, subject to adjustment as provided herein, of fully paid, non-assessable shares of Common Stock (as defined below) set forth below in Section 1(c) (the **"Warrant Securities"**). This Warrant is one of a series of Warrants being issued pursuant to that certain Securities Purchase Agreement, dated the date hereof (the **"SPA Date"**), by and between the Company and the Holder (the **"Securities Purchase Agreement"**). Except as otherwise defined herein, capitalized terms used in this Warrant shall have the meanings set forth in the Securities Purchase Agreement.

1. EXERCISE OF WARRANT.

(a) Mechanics of Exercise. Subject to the terms and conditions hereof, this Warrant may be exercised by the Holder on any day on or after the Exercisability Date, in whole or in part, by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the **"Exercise Notice"**), of the Holder's election to exercise this Warrant and (ii) (A) payment to the Company by no later than two (2) Trading Days of an amount equal to the applicable Exercise Price in effect on the date of exercise multiplied by the number of Warrant Securities as to which this Warrant is being exercised (the **"Aggregate Exercise Price"**) in cash or by wire transfer of immediately available funds or (B) by delivery of the Exercise Notice to the Company specifying that this Warrant is being exercised as a Cashless Exercise (as defined in Section 1(d)). The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Securities shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Securities. On or before the first (1st) Trading Day following the date on which the Company has received an Exercise Notice, the Company shall transmit by facsimile an acknowledgment of confirmation of receipt of such Exercise Notice to the Holder and Corporate Stock Transfer, Inc. (the Company's **"Transfer Agent"**). On or before the third (3rd) Trading Day following the date on which the Company has received such Exercise Notice (the **"Share Delivery Date"**), the Company shall, (X) provided that the Transfer Agent is participating in The Depository Trust Company (**"DTC"**) Fast Automated Securities Transfer Program, upon the request of the Holder, credit such aggregate number of Warrant Securities to which the Holder is entitled pursuant to such exercise to the Holder's or its designee's balance account with DTC through its Deposit/Withdrawal At Custodian system, or (Y) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Notice, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Securities with respect to which this Warrant has been exercised, irrespective of the date such Warrant Securities are credited to the Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Securities, as the case may be. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant Securities represented by this Warrant submitted for exercise is greater than the number of Warrant Securities being acquired upon an exercise, then the Company shall as soon as practicable and in no event by no later than three (3) Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant Securities purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Securities with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock to be issued shall be rounded up to the nearest whole number. The Company shall pay any and all transfer taxes which may be payable with respect to the issuance and delivery of Warrant Securities upon exercise of this Warrant.

(b) Exercise Price; Number of Warrant Securities. For purposes of this Warrant, **"Exercise Price"** means 120% of the PIPE Share Price (as defined in the Securities Purchase Agreement), subject to adjustment as provided herein. The "**Warrant Securities**" means a number of shares of Common Stock and/or other securities, including units of securities, sold in the PIPE Offering, subject to adjustment as provided herein, equal to (x) the Warrant Coverage (as defined below) multiplied by (y) the Purchase Price (as defined in the Securities Purchase Agreement), (z) divided by the PIPE Share Price. "**Warrant Coverage**" means (i) 50% of the Purchase Price, if the PIPE Offering (as defined in the Securities Purchase Agreement) closes on or prior to 120 days after the Closing Date (as defined in the Securities Purchase Agreement), (ii) 75% of the Purchase Price, if the PIPE Offering closes after 120 days but before 150 days, after the Closing Date, and (iii) 100% of the Purchase Price, if the PIPE Offering closes after 150 days after the Closing Date.

(c) Company's Failure to Timely Deliver Securities. If within three (3) Trading Days of receipt of the Exercise Notice, the Company shall fail to issue to the Holder a certificate for the number of shares of Common Stock to which the Holder is entitled and register such shares of Common Stock on the Company's share register or credit the Holder's balance account with DTC for such number of shares of Common Stock to which the Holder is entitled upon the Holder's exercise of this Warrant, and if on or after such third Trading Day the Holder purchases (or any third party on behalf of such Investor or for the Investor's account purchases, in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of shares of Common Stock issuable upon such exercise that the Holder anticipated receiving from the Company (a **"Buy-In"**), then the Company shall, within three (3) Trading Days after the Holder's written request and at the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased (the **"Buy-In Price"**), at which point the Company's obligation to deliver such certificate (and to issue such Warrant Securities) or credit the Holder's balance account with DTC for such Warrant Securities shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such Warrant Securities or credit the Holder's balance account with DTC for the number of such Warrant Securities and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, multiplied by (B) the Closing Bid Price on the Share Delivery Date.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary, if a registration statement covering the Warrant Securities that are the subject of the Exercise Notice (the **"Unavailable Warrant Securities"**), or an exemption from registration**,** is not available for the resale of such Unavailable Warrant Securities, the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the **"Net Number"** of shares of Common Stock determined according to the following formula (a **"Cashless Exercise"**):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the arithmetic average of the Closing Sale Prices of the shares of Common Stock for the five (5) consecutive Trading Days ending on the date immediately preceding the date of the Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant Securities at the time of such exercise.

(e) Rule 144. For purposes of Rule 144(d) promulgated under the Securities Act, as in effect on the date hereof, assuming the Holder is not an affiliate of the Company, it is intended that the Warrant Securities issued in a Cashless Exercise shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Securities shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Securities Purchase Agreement.

(f) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Securities, the Company shall promptly issue to the Holder the number of Warrant Securities that are not disputed.

(g) Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "**Warrant Register**"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of record of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(h) Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Transfer Agent or to the Company at its address specified herein. Upon any such registration of transfer, a new warrant to purchase Common Stock, in substantially the form of this Warrant (any such new warrant, a "**New Warrant**"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

2. ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT SECURITIES. The Exercise Price and the number of Warrant Securities issuable upon exercise of this Warrant, as applicable, shall be adjusted from time to time as follows:

(a) Adjustment upon Subdivision or Combination of Common Stock. If the Company at any time on or after the SPA Date subdivides (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Securities will be proportionately increased. If the Company at any time on or after the SPA Date combines (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Securities will be proportionately decreased. Any adjustment under this Section 2(a) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(b) Adjustment of Exercise Price Upon Issuance of New Securities at Less Than the Exercise Price. In the event the Company shall at any time after the date hereof and on or prior to the earlier of the exercise of this Warrant in full and the one (1) year anniversary of the date hereof, issue New Securities, without Consideration or for a Consideration per share less than the applicable Exercise Price in effect immediately prior to such issue, then the Exercise Price shall be reduced, concurrently with such issue, to the Consideration per share received by the Company for such issue or deemed issue of the New Securities; provided, that, if such issuance or deemed issuance was without Consideration, then the Company shall be deemed to have received an aggregate of $0.001 of Consideration for all such New Securities issued or deemed to be issued; provided further, that, in the event of an Adjustment pursuant to this Section 2(b), the number of Warrant Securities issuable upon exercise of this Warrant shall not change.

(c) Other Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights or phantom stock rights), then the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of Warrant Securities so as to protect the rights of the Holder; provided that no such adjustment pursuant to this Section 2(c) will increase the Exercise Price or decrease the number of Warrant Securities as otherwise determined pursuant to this Section 2.

(d) Adjustments Generally. If the Warrant Securities underlying this Warrant include securities that are convertible or exercisable, then such Warrant Securities shall be adjusted from time to time for all of the events that would cause an adjustment to the securities issued in the PIPE Offering, notwithstanding that this Warrant has not been exercised and that the Warrant Securities are not outstanding at the time of the event giving rise to such adjustment.

3. RIGHTS UPON DISTRIBUTION OF ASSETS.

(a) If at any time or from time to time the holders of Common Stock of the Company (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor:

(i) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution (other than a dividend or distribution covered in Section 2(a) above);

(ii) any cash paid or payable otherwise than as a cash dividend; or

(iii) Common Stock or additional stock or other securities or property (including cash) by way of spinoff, split-up, reclassification, combination of shares or similar corporate rearrangement (other than shares of Common Stock pursuant to Section 2(a) above), then and in each such case, the Holder hereof will, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clauses (ii) and (iii) above) which such Holder would hold on the date of such exercise had such Holder been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property. For purposes of this Section 3, if the PIPE Offering includes securities that are convertible into Common Stock, the calculation will be made on the basis of the number of shares the Holder would hold if the Holder had converted such securities.

(b) Upon the occurrence of each adjustment pursuant to this Section 3, the Company at its expense will, at the written request of the Holder, promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted number or type of Warrant Securities or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's transfer agent.

4. FUNDAMENTAL TRANSACTIONS. The Company shall not enter into or be party to a Fundamental Transaction unless the Successor Entity assumes this Warrant in accordance with the provisions of this Section 4, including agreements to deliver to each holder of Warrants in exchange for such Warrants a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, an adjusted exercise price equal to the value for the shares of Common Stock reflected by the terms of such Fundamental Transaction, and exercisable for a corresponding number of shares of capital stock or other securities equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and satisfactory to the Holder. Upon the occurrence of any Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the **"**Company**"** shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of shares of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a **"Corporate Event"**), the Company shall make appropriate provision to ensure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the Fundamental Transaction but prior to the Expiration Date, in lieu of the shares of the Common Stock (or other securities, cash, assets or other property) purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had the Warrant been exercised immediately prior to such Fundamental Transaction (including, if the Warrant Securities underlying this Warrant include securities that are convertible or exercisable, had such Warrant Securities been converted or exercised, as applicable, into shares of Common Stock). If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The provisions of this Section 4 shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant. Notwithstanding the foregoing, in the event of a Fundamental Transaction (i) in which holders of Common Stock receive all cash or substantially all cash or (ii) with a Person whose common stock or equivalent equity security is not quoted or listed on an Eligible Market, and, in either case, at the request of the Holder delivered within 30 days after consummation of the Fundamental Transaction, the Company (or the Successor Entity) shall purchase this Warrant from the Holder by paying to the Holder, within seven Business Days after such request (or, if later, on the effective date of the Fundamental Transaction), cash in an amount equal to the Black Scholes Value of the remaining unexercised portion of this Warrant on the date of such Fundamental Transaction.

5. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith comply with all the provisions of this Warrant and take all actions consistent with effectuating the purposes of this Warrant. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the exercise of this Warrant, and (iii) shall, so long as this Warrant is outstanding, take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, 100% of the number of shares of Common Stock issuable upon exercise of this Warrant then outstanding (without regard to any limitations on exercise).

6. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person's capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person's capacity as the Holder of this Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Securities which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company.

7. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. Subject to Section 14 of this Warrant, if this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company and deliver the completed and executed Assignment Form, in the form attached hereto as Exhibit B, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Securities being transferred by the Holder and, if less then the total number of Warrant Securities then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant Securities not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant Securities then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant Securities then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Securities as is designated by the Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given. Notwithstanding anything to the contrary herein, in no event shall the original Warrant be subdivided into more than three (3) separate Warrants and such new Warrants shall not be further subdivided.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Securities then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(c), the Warrant Securities designated by the Holder which, when added to the number of shares of Common Stock and/or other securities underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Securities then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

8. NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 7.4 of the Securities Purchase Agreement.

9. AMENDMENT AND WAIVER. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Warrant shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

11. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

12. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Securities, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Securities within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two (2) Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder, which approval shall not be unreasonably withheld, or (b) the disputed arithmetic calculation of the Warrant Securities to the Company's independent, outside accountant. The Company shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten Business Days from the time it receives the disputed determinations or calculations. The prevailing party in any dispute resolved pursuant to this Section 12 shall be entitled to the full amount of all reasonable expenses, including all costs and fees paid or incurred in good faith, in relation to the resolution of such dispute. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

13. REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the other Transactions Documents, as applicable, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder to pursue actual damages for any failure by the Company to comply with the terms of this Warrant. The Company acknowledges that a breach by it of its obligations hereunder may cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder may be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required. The issuance of Warrant Securities and certificates for such Warrant Securities as contemplated hereby upon the exercise of this Warrant shall be made without charge to the Holder for any issuance tax in respect thereof.

14. TRANSFER. Subject to compliance with applicable laws, this Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company, such consent not to be unreasonably withheld, conditioned or delayed.

15. WARRANT AGENT. The Company shall serve as warrant agent under this Warrant. Upon 30 days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or stockholder services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

16. SEVERABILITY. If any provision of this Warrant shall be held to be invalid and unenforceable, such invalidity or unenforceability shall not affect any other provision of this Warrant.

17. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "**Black Scholes Value**" means the value of this Warrant based on the Black and Scholes Option Pricing Model obtained from the "OV" function on Bloomberg using (i) a price per share of Common Stock equal to the Weighted Average Price of the Common Stock for the Trading Day immediately preceding the date of consummation of the applicable Fundamental Transaction, (ii) a risk-free interest rate corresponding to the U.S. Dollar – LIBOR swap rate for a period equal to the remaining term of this Warrant as of the date of consummation of the applicable Fundamental Transaction, (iii) an expected volatility equal to the greater of 100% or the 30-day realized volume up to and including the Trading Day immediately after the public announcement of the applicable Fundamental Transaction, and (iv) a remaining option time equal to the number of calendar days between the date of the public announcement of the applicable Fundamental Transaction and the expiration of the Exercise Period.

(b) **"Bloomberg"** means Bloomberg Financial Markets.

(c) **"Business Day"** means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(d) **"Closing Bid Price"** and **"Closing Sale Price"** means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or the last trade price, respectively, of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(e) **"Common Stock"** means (i) the Company's shares of Common Stock, par value $0.001 per share, and (ii) any share capital into which such Common Stock shall have been changed or any share capital resulting from a reclassification of such Common Stock.

(f) **"Consideration**" means, in the case of issuance of New Securities issued (i) for cash, the amount of cash received by the Company; (ii) for property other than cash, the property value computed at the fair market value thereof at the time of such issue, as determined in good faith by the board of directors of the Company; and (iii) together with other shares or securities or other assets of the Company for consideration which covers both, the proportion of such Consideration so received, computed as provided in clauses (i) and (ii) above, as determined in good faith by the board of directors of the Company. The Consideration per share received by the Company for New Securities that are Options or Convertible Securities, shall be determined by dividing: (x) the total amount, if any, received or receivable by the Company as Consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional Consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by (y) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

(g) **"Convertible Securities"** means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock.

(h) **"Eligible Market"** means the Principal Market, The New York Stock Exchange, Inc., The American Stock Exchange, The NASDAQ Global Market~~ or,~~ The NASDAQ Capital Market or the Over the Counter Bulletin Board.

(i) **"Expiration Date"** means the date that is five (5) years following the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a **"Holiday"**), the next date that is not a Holiday.

(j) **"Fundamental Transaction"** means (other than the Target Transfaction) that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person (but excluding a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company), or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), or (v) reorganize, recapitalize or reclassify its Common Stock, or (vi) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Common Stock; or (vii) the dissolution, liquidation or winding up of the Company, whether voluntary or involuntary.

(k) "**New Securities**" means all shares of Common Stock issued or deemed to be issued by the Company after the SPA Date, other than (i) the following shares of Common Stock and (ii) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities outstanding as of the Closing Date: (a) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 2(a); (b) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Company or any of its Subsidiaries pursuant to a plan, agreement or arrangement approved by the board of directors of the Company;~~ or~~ (c) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case, provided such issuance is pursuant to the terms of such Option or Convertible Security; (d) shares of Common Stock, Options or Convertible Securities issued to employees or directors of, or consultants or advisors to, the Company or any of its Subsidiaries in consideration for services rendered, as approved in each case by the independent members of the Company's board of directors; (e) shares of Common Stock or Convertible Securities .issued as consideration for a transaction, including the Target Transaction, or (f) shares of Common Stock, Options or Convertible Securities issued in connection with the Company's strategic relationships or joint ventures.

(l) **"Options"** means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

(m) **"Parent Entity"** of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(n) **"Person"** means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(o) "**Principal Market**" means the principal securities exchange or securities market on which the Common Stock is then traded.

(p) **"Successor Entity"** means the Person (or, if so elected by the Holder, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Holder, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

(q) **"Trading Day"** means any day on which the Common Stock are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock are then traded; *provided* that "Trading Day" shall not include any day on which the Common Stock are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time).

(r) "**Weighted Average Price**" means, for any security as of any date, the dollar volume-weighted average price for such security on the principal securities exchange or securities market on which the Common Stock is then traded during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00 p.m., New York time, as reported by Bloomberg through its "Volume at Price" function or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00 p.m., New York time, as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by Pink OTC Markets, Inc. (or any similar organization or agency succeeding to its functions of reporting prices). If the Weighted Average Price cannot be calculated for such security on such date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations shall be appropriately adjusted for any share dividend, share split or other similar transaction during such period. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 12 with the term "Weighted Average Price" being substituted for the term "Exercise Price." All such determinations shall be appropriately adjusted for any share dividend, share split or other similar transaction during such period.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the Issuance Date set out above.

INTERNATIONAL SURF RESORTS, INC.
By: _____
Name:
Title:

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER
TO EXERCISE THIS WARRANT

INTERNATIONAL SURF RESORTS, INC.

The undersigned holder hereby exercises the right to purchase _____ PIPE Securities (**"Warrant Securities"**) of INTERNATIONAL SURF RESORTS, INC., a Nevada corporation (the **"Company"**), evidenced by the attached Warrant (the **"Warrant"**). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price. The Holder intends that payment of the Exercise Price shall be made as:

_____ a **"**Cash Exercise**"** with respect to _____ Warrant Securities; and/or

_____ a **"**Cashless Exercise**"** with respect to _____ Warrant Securities.

2. Payment of Exercise Price. In the event that the holder has elected a Cash Exercise with respect to some or all of the Warrant Securities to be issued pursuant hereto, the holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

3. Delivery of Warrant Securities. The Company shall deliver to the holder _____ Warrant Securities in accordance with the terms of the Warrant and, after delivery of such Warrant Securities, _____ Warrant Securities remain subject to the Warrant.

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs Corporate Stock Transfer, Inc. to issue the above indicated number of shares of Common Stock in accordance with the Transfer Agent Instructions dated [___ ____], 20[__] from the Company and acknowledged and agreed to by Corporate Stock Tansfer, Inc.

INTERNATIONAL SURF RESORTS, INC.
By: _____
Name:
Title:

EXHIBIT B

ASSIGNMENT FORM

INTERNATIONAL SURF RESORTS, INC.

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: _____
(Please Print)

Address: _____
(Please Print)

Dated: _____ __, _____
Holder's
Signature: _____
Holder's
Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Exhibit C

FORM OF REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "**Agreement**") dated as of the [●] day of February, 2011, is entered into by and between International Surf Resorts, Inc., a Nevada corporation (the "**Company**"), and "**Investor"** each of the Purchasers signatory to that certain Purchase Agreement (each, an "**Investor**" and collectively, the "**Investors**") dated the date hereof by and between the Company and the Investors (the "**Purchase Agreement**"). Capitalized terms used herein have the respective meanings ascribed thereto in the Purchase Agreement unless otherwise defined herein.

In consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. The following capitalized terms used herein have the following meanings:

"**Agreement**" means this Agreement, as amended, restated, supplemented, or otherwise modified from time to time.

"**Commission**" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Act or the Exchange Act.

"**Common Stock**" means the common stock, par value $0.001 per share, of the Company.

"**Company**" shall have the meaning ascribed to such term in the preamble hereof.

"**Demand Registration**" is defined in Section 2.1.1.

"**Demanding Holder**" is defined in Section 2.1.1.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

"**Indemnified Party**" is defined in Section 4.3.

"**Indemnifying Party**" is defined in Section 4.3.

"**Investor**" and "**Investors**" shall have the meaning ascribed to such term in the preamble hereof.

" **Investor Indemnified Party**" is defined in Section 4.3.

"**Maximum Number of Shares**" is defined in Section 2.1.4.

"**Person**" shall be construed as broadly as possible and shall include an individual, corporation, association, partnership (including a limited liability partnership or a limited liability limited partnership), limited liability company, estate, trust, joint venture, unincorporated organization or a government or any department, agency or political subdivision thereof.

"**Piggy-Back Registration**" is defined in Section 2.2.1.

"**Pro Rata**" is defined in Section 2.1.4.

"**Registrable Securities**" means (i) the securities issuable upon conversion of the Note, (ii) the shares of Common Stock or other securities issuable upon exercise of the Warrant, and (iii) any shares of Common Stock or other securities issued or issuable in respect of such shares of Common Stock or other securities upon any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, sale of assets or similar event. As to any particular Registrable Securities, such Registrable Securities shall cease to be Registrable Securities when (i) they have been registered under the Securities Act, the registration statement in connection therewith has been declared effective, and they have been disposed of pursuant to such effective registration statement, (ii) all such shares are available for sale and can be sold (whether or not so sold) without restriction to the public pursuant to Rule 144 (or any successor rule), (iii) they shall have been otherwise transferred and the subsequent disposition of them shall not require registration under the Securities Act, or (v) they shall have ceased to be outstanding.

"**Registration Statement**" means a registration statement filed by the Company with the Commission in compliance with the Securities Act and the rules and regulations promulgated thereunder for a public offering and sale of Common Stock (other than a registration statement on Form S-4 or Form S-8, or their successors, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another entity).

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect at the time.

"**Purchase Agreement**" shall have the meaning ascribed to such term in the preamble hereof.

"**Underwriter**" means a securities dealer who purchases any Registrable Securities as principal in an underwritten offering and not as part of such dealer's market-making activities.

2. REGISTRATION RIGHTS.

2.1 Demand Registration.

2.1.1. Request for Registration. At any time and from time to time on or after the Closing Date, the holders of a majority-in-interest of such Registrable Securities may make a written demand for registration under the Securities Act of all or part of their Registrable Securities (a "**Demand Registration**"). Any demand for a Demand Registration shall specify the number of shares of Registrable Securities proposed to be sold and the intended method(s) of distribution thereof. The Company will notify all holders of Registrable Securities of the demand, and each holder of Registrable Securities who wishes to include all or a portion of such holder's Registrable Securities in the Demand Registration (each such holder including shares of Registrable Securities in such registration, a "**Demanding Holder**") shall so notify the Company within fifteen (15) days after the receipt by the holder of the notice from the Company. Upon any such request, the Demanding Holders shall be entitled to have their Registrable Securities included in the Demand Registration, subject to Section 2.1.4 and the provisos set forth in Section 3.1.1. The Company shall not be obligated to effect more than an aggregate of three (3) Demand Registrations under this Section 2.1.1 in respect of all Registrable Securities.

2.1.2. Effective Registration. A registration will not count as a Demand Registration until the Registration Statement filed with the Commission with respect to such Demand Registration has been declared effective and the Company has complied with all of its obligations under this Agreement with respect thereto; provided, however, that if, after such Registration Statement has been declared effective, the offering of Registrable Securities pursuant to a Demand Registration is interfered with by any stop order or injunction of the Commission or any other governmental agency or court, the Registration Statement with respect to such Demand Registration will be deemed not to have been declared effective, unless and until, (i) such stop order or injunction is removed, rescinded or otherwise terminated, and (ii) a majority-in-interest of the Demanding Holders thereafter elect to continue the offering; provided, further, that the Company shall not be obligated to file a second Registration Statement until a Registration Statement that has been filed is counted as a Demand Registration or is terminated.

2.1.3. Underwritten Offering. If a majority-in-interest of the Demanding Holders so elect and such holders so advise the Company as part of their written demand for a Demand Registration, the offering of such Registrable Securities pursuant to such Demand Registration shall be in the form of an underwritten offering. In such event, the right of any holder to include its Registrable Securities in such registration shall be conditioned upon such holder's participation in such underwriting and the inclusion of such holder's Registrable Securities in the underwriting to the extent provided herein. All Demanding Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the Underwriter or Underwriters selected for such underwriting by a majority-in-interest of the holders initiating the Demand Registration.

2.1.4. Reduction of Offering. If the managing Underwriter or Underwriters for a Demand Registration that is to be an underwritten offering advises the Company and the Demanding Holders in writing that the dollar amount or number of shares of Registrable Securities which the Demanding Holders desire to sell, taken together with all other shares of Common Stock or other securities which the Company desires to sell and the shares of Common Stock, if any, as to which registration has been requested pursuant to written contractual piggy-back registration rights held by other stockholders of the Company who desire to sell, exceeds the maximum dollar amount or maximum number of shares that can be sold in such offering without adversely affecting the proposed offering price, the timing, the distribution method, or the probability of success of such offering (such maximum dollar amount or maximum number of shares, as applicable, the "**Maximum Number of Shares**"), then the Company shall include in such registration: (i) first, the Registrable Securities as to which Demand Registration has been requested by the Demanding Holders (pro rata in accordance with the number of shares that each such Person has requested be included in such registration, regardless of the number of shares held by each such Person (such proportion is referred to herein as "**Pro Rata**")) that can be sold without exceeding the Maximum Number of Shares; (ii) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (i), the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (iii) third, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock or other securities for the account of other persons that the Company is obligated to register pursuant to written contractual arrangements with such persons and that can be sold without exceeding the Maximum Number of Shares.

2.1.5. Withdrawal. If a majority-in-interest of the Demanding Holders disapprove of the terms of any underwriting or are not entitled to include all of their Registrable Securities in any offering, such majority-in-interest of the Demanding Holders may elect to withdraw from such offering by giving written notice to the Company and the Underwriter or Underwriters of their request to withdraw prior to the effectiveness of the Registration Statement filed with the Commission with respect to such Demand Registration. If the majority-in-interest of the Demanding Holders withdraws from a proposed offering relating to a Demand Registration, then such registration shall not count as a Demand Registration provided for in Section 2.1.

2.1.6. Deadline for Effectiveness; Penalty for Delays. Promptly following the demand for a Demand Registration, the Company shall prepare and file with the SEC a Registration Statement on Form S-1 covering the resale of the Registrable Securities. The Company shall use its best efforts to cause the Registration Statement to become effective, if the Registration Statement does not become subject to review by the Commission, the date which is the earliest of (a) sixty (60) days after the date of initial filing of such Registration Statement ("**DemandFiling Date**") or (b) five (5) Trading Days after the Company receives notification from the Commission that the Registration Statement will not become subject to review, or (ii) if the Registration Statement becomes subject to review by the Commission, the date which is one hundred and twenty (120) days after the Demand Filing Date (the "**Effectiveness Deadline**"). If a Registration Statement covering the Registrable Securities is not effective on or prior to the Effectiveness Deadline, the Company will make pro rata payments to each Investor, as liquidated damages and not as a penalty, in an amount equal to 1.0% of the aggregate amount invested by such Investor for each 30-day period or pro rata for any portion thereof following the Effectiveness Deadline for which no Registration Statement is effective with respect to the Registrable Securities. Such payments shall constitute the Investors' exclusive monetary remedy for such events, but shall not affect the right of the Investors to seek injunctive relief. Such payments shall be made to each Investor in cash no later than three (3) Business Days after the end of each 30-day period.

2.2 Piggy-Back Registration.

2.2.1. Piggy-Back Rights. Commencing as of the PIPE Offering, and if at any time on after the date of this Agreement, the Company proposes to file a Registration Statement under the Securities Act with respect to an offering of equity securities, or securities or other obligations exercisable or exchangeable for, or convertible into, equity securities, by the Company for its own account or for stockholders of the Company for their account (or by the Company and by stockholders of the Company including, without limitation, pursuant to Section 2.1), other than a Registration Statement (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to the Company's existing stockholders, or (iii) for a dividend reinvestment plan, then the Company shall (x) give written notice of such proposed filing to the holders of Registrable Securities as soon as practicable but in no event less than ten (10) days before the anticipated filing date, which notice shall describe the amount and type of securities to be included in such offering, the intended method(s) of distribution, and the name of the proposed managing Underwriter or Underwriters, if any, of the offering, and (y) offer to the holders of Registrable Securities in such notice the opportunity to register the sale of such number of shares of Registrable Securities as have been requested by such holders in writing within five (5) days following receipt of such notice (a "**Piggy-Back Registration**"). The Company shall cause such Registrable Securities to be included in such registration and shall use its best efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration on the same terms and conditions as any similar securities of the Company and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method(s) of distribution thereof. All holders of Registrable Securities proposing to distribute their securities through a Piggy-Back Registration that involves an Underwriter or Underwriters shall enter into an underwriting agreement in customary form with the Underwriter or Underwriters selected for such Piggy-Back Registration. Penalties agreed to by the Company, if any, with regard to the timing of filing and effectiveness of a Registration Statement covering the securities issued in the PIPE Offering for the benefit of any investors in the PIPE Offering shall be deemed to have been agreed to, and shall apply on the same basis for the benefit of the Investors.

2.2.2. Reduction of Offering. If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which the Company desires to sell, taken together with shares of Common Stock, if any, as to which registration has been demanded pursuant to written contractual arrangements with persons other than the holders of Registrable Securities hereunder, the Registrable Securities as to which registration has been requested under this Section 2.2, and the shares of Common Stock, if any, as to which registration has been requested pursuant to the written contractual piggy-back registration rights of other stockholders of the Company, exceeds the Maximum Number of Shares, then the Company shall include in any such registration:

(i) If the registration is undertaken for the Company's account: (A) first, the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock or other securities, if any, comprised of Registrable Securities, as to which registration has been requested pursuant to the applicable written contractual piggy-back registration rights of such security holders, Pro Rata, that can be sold without exceeding the Maximum Number of Shares; and (C) third, to the extent that the Maximum Number of shares has not been reached under the foregoing clauses (A) and (B), the shares of Common Stock or other securities for the account of other persons that the Company is obligated to register pursuant to written contractual piggy-back registration rights with such persons and that can be sold without exceeding the Maximum Number of Shares;

(ii) If the registration is a "demand" registration undertaken at the demand of persons other than the holders of Registrable Securities, (A) first, the shares of Common Stock or other securities for the account of the demanding persons that can be sold without exceeding the Maximum Number of Shares; (B) second, to the extent that the Maximum Number of Shares has not been reached under the foregoing clause (A), the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares; (C) third, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A) and (B), collectively the shares of Common Stock or other securities comprised of Registrable Securities, Pro Rata, as to which registration has been requested pursuant to the terms hereof, that can be sold without exceeding the Maximum Number of Shares; and (D) fourth, to the extent that the Maximum Number of Shares has not been reached under the foregoing clauses (A), (B) and (C), the shares of Common Stock or other securities for the account of other persons that the Company is obligated to register pursuant to written contractual arrangements with such persons, that can be sold without exceeding the Maximum Number of Shares.

2.2.3. Withdrawal. Any holder of Registrable Securities may elect to withdraw such holder's request for inclusion of Registrable Securities in any Piggy-Back Registration by giving written notice to the Company of such request to withdraw prior to the effectiveness of the Registration Statement. The Company (whether on its own determination or as the result of a withdrawal by persons making a demand pursuant to written contractual obligations) may withdraw a registration statement at any time prior to the effectiveness of the Registration Statement. Notwithstanding any such withdrawal, the Company shall pay all expenses incurred by the holders of Registrable Securities in connection with such Piggy-Back Registration as provided in Section 3.3.

3. REGISTRATION PROCEDURES.

3.1 Filings; Information. Whenever the Company is required to effect the registration of any Registrable Securities pursuant to Section 2, the Company shall use its best efforts to effect the registration and sale of such Registrable Securities in accordance with the intended method(s) of distribution thereof as expeditiously as reasonably practicable, and in connection with any such request:

3.1.1. Filing Registration Statement. The Company shall, as expeditiously as possible after receipt of a request for a Demand Registration pursuant to Section 2.1, prepare and file with the Commission a Registration Statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of all Registrable Securities to be registered thereunder in accordance with the intended method(s) of distribution thereof, and shall use its best efforts to cause such Registration Statement to become effective and use its best efforts to keep it effective for the period required by Section 3.1.4; provided, however, that the Company shall have the right to defer any Demand Registration for up to thirty (30) days, and any Piggy-Back Registration for such period as may be applicable to deferment of any demand registration to which such Piggy-Back Registration relates, in each case if the Company shall furnish to the holders a certificate signed by a Chief Executive Officer of the Company stating that, in the good faith judgment of the board of directors of the Company, it would be materially detrimental to the Company and its stockholders for such Registration Statement to be effected at such time; provided further, however, that the Company shall not have the right to exercise the right set forth in the immediately preceding proviso more than once in any 365-day period in respect of a Demand Registration hereunder.

3.1.2. Prior Notification. The Company shall, prior to filing a Registration Statement or prospectus, or any amendment or supplement thereto, furnish without charge to the holders of Registrable Securities included in such registration, and such holders' legal counsel, copies of such Registration Statement as proposed to be filed, each amendment and supplement to such Registration Statement (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such Registration Statement (including each preliminary prospectus) and such other documents as the holders of Registrable Securities included in such registration or legal counsel for any such holders may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such holders and to provide such holders and legal counsel with a reasonable opportunity to review such documents and comment thereon.

3.1.3. Subsequent Notification. After the filing of a Registration Statement, the Company shall promptly, and in no event more than two (2) business days after such filing, notify the holders of Registrable Securities included in such Registration Statement of such filing, and shall further notify such holders promptly and confirm such advice in writing in all events within two (2) business days of the occurrence of any of the following: (i) when such Registration Statement becomes effective; (ii) when any post-effective amendment to such Registration Statement becomes effective; (iii) the issuance or threatened issuance by the Commission of any stop order (and the Company shall take all actions required to prevent the entry of such stop order or to remove it if entered); and (iv) any request by the Commission for any amendment or supplement to such Registration Statement or any prospectus relating thereto or for additional information or of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of the securities covered by such Registration Statement, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and promptly make available to the holders of Registrable Securities included in such Registration Statement any such supplement or amendment; except that before filing with the Commission a Registration Statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference, the Company shall furnish to the holders of Registrable Securities included in such Registration Statement and to the legal counsel for any such holders, copies of all such documents proposed to be filed sufficiently in advance of filing to provide such holders and legal counsel with a reasonable opportunity to review such documents and comment thereon, and the Company shall not file any Registration Statement or prospectus or amendment or supplement thereto, including documents incorporated by reference, to which such holders or their legal counsel shall object.

3.1.4. Amendments and Supplements. The Company shall prepare and file with the Commission such amendments, including post-effective amendments, and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and in compliance with the provisions of the Securities Act until all Registrable Securities and other securities covered by such Registration Statement have been disposed of in accordance with the intended method(s) of distribution set forth in such Registration Statement (which period shall not exceed the sum of one hundred eighty (180) days plus any period during which any such disposition is interfered with by any stop order or injunction of the Commission or any governmental agency or court) or such securities have been withdrawn.

3.1.5. State Securities Laws Compliance. The Company shall use its best efforts to (i) register or qualify the Registrable Securities covered by the Registration Statement under such securities or "blue sky" laws of such jurisdictions in the United States as the holders of Registrable Securities included in such Registration Statement (in light of their intended plan of distribution) may request and (ii) take such action necessary to cause such Registrable Securities covered by the Registration Statement to be registered with or approved by such other governmental authorities as may be necessary by virtue of the business and operations of the Company and do any and all other acts and things that may be necessary or advisable to enable the holders of Registrable Securities included in such Registration Statement to consummate the disposition of such Registrable Securities in such jurisdictions; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph or subject itself to taxation in any such jurisdiction.

3.1.6. Agreements for Disposition. The Company shall enter into customary agreements (including, if applicable, an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities. The representations, warranties and covenants of the Company in any underwriting agreement which are made to or for the benefit of any Underwriters, to the extent applicable, shall also be made to and for the benefit of the holders of Registrable Securities included in such Registration Statement. No holder of Registrable Securities included in such Registration Statement shall be required to make any representations or warranties in the underwriting agreement except, if applicable, with respect to such holder's organization, good standing, authority, title to Registrable Securities, lack of conflict of such sale with such holder's material agreements and organizational documents, and with respect to written information relating to such holder that such holder has furnished in writing expressly for inclusion in such Registration Statement.

3.1.7. Cooperation. The principal executive officer of the Company, the principal financial officer of the Company, the principal accounting officer of the Company and all other officers and members of the management of the Company shall cooperate fully in any offering of Registrable Securities hereunder, which cooperation shall include, without limitation, the preparation of the Registration Statement with respect to such offering and all other offering materials and related documents, and participation in meetings with Underwriters, attorneys, accountants and potential investors.

3.1.8. Records. The Company shall make available for inspection by the holders of Registrable Securities included in such Registration Statement, any Underwriter participating in any disposition pursuant to such Registration Statement and any attorney, accountant or other professional retained by any holder of Registrable Securities included in such Registration Statement or any Underwriter, all financial and other records, pertinent corporate documents and properties of the Company, as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information requested by any of them in connection with such Registration Statement.

3.1.9. Opinions and Comfort Letters. The Company shall furnish to each holder of Registrable Securities included in any Registration Statement a signed counterpart, addressed to such holder, of (i) any opinion of counsel to the Company delivered to any Underwriter and (ii) any comfort letter from the Company's independent public accountants delivered to any Underwriter. In the event no legal opinion is delivered to any Underwriter, the Company shall furnish to each holder of Registrable Securities included in such Registration Statement, at any time that such holder elects to use a prospectus, an opinion of counsel to the Company to the effect that the Registration Statement containing such prospectus has been declared effective and that no stop order is in effect.

3.1.10. Earnings Statement. The Company shall comply with all applicable rules and regulations of the Commission and the Securities Act, and make available to its stockholders, as soon as practicable, an earnings statement covering a period of twelve (12) months, beginning within three (3) months after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

3.1.11. Listing. The Company shall use its best efforts to cause all Registrable Securities included in any registration to be listed on such exchanges or otherwise designated for trading in the same manner as similar securities issued by the Company are then listed or designated or, if no such similar securities are then listed or designated, in a manner satisfactory to the holders of a majority of the Registrable Securities included in such registration.

3.2 Obligation to Suspend Distribution. Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.1.3(iv) or upon any suspension by the Company, pursuant to a written insider trading compliance program adopted by the Company's Board of Directors, of the ability of all "insiders" covered by such program to transact in the Company's securities because of the existence of material non-public information, each holder of Registrable Securities included in any registration shall immediately discontinue disposition of such Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such holder receives the supplemented or amended prospectus contemplated by Section 3.1.3(iv) or the restriction on the ability of "insiders" to transact in the Company's securities is removed, as applicable, and, if so directed by the Company, each such holder will deliver to the Company all copies, other than permanent file copies then in such holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice.

3.3 Registration Expenses. The Company shall bear all costs and expenses incurred in connection with any Demand Registration pursuant to Section 2.1 and any Piggy-Back Registration pursuant to Section 2.2 and all expenses incurred in performing or complying with its other obligations under this Agreement, whether or not the Registration Statement becomes effective, including, without limitation: (i) all registration and filing fees; (ii) fees and expenses of compliance with securities or "blue sky" laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities); (iii) printing expenses; (iv) the Company's internal expenses (including, without limitation, all salaries and expenses of its officers and employees); (v) the fees and expenses incurred in connection with the listing of the Registrable Securities as required by Section 3.1.11; (vi) Financial Industry Regulatory Authority, Inc. fees; (vii) fees and disbursements of counsel for the Company and fees and expenses for independent certified public accountants retained by the Company (including the expenses or costs associated with the delivery of any opinions or comfort letters requested pursuant to Section 3.1.9); (viii) the fees and expenses of any special experts retained by the Company in connection with such registration and (ix) the fees and expenses of one legal counsel selected by the holders of a majority-in-interest of the Registrable Securities included in such registration. The Company shall have no obligation to pay any underwriting discounts or selling commissions attributable to the Registrable Securities being sold by the holders thereof, which underwriting discounts or selling commissions shall be borne by such holders. Additionally, in an underwritten offering, all selling stockholders and the Company shall bear the expenses of the underwriter pro rata in proportion to the respective amount of shares each is selling in such offering.

3.4 Information. The holders of Registrable Securities shall provide such information as may reasonably be requested by the Company, or the managing Underwriter, if any, in connection with the preparation of any Registration Statement, including amendments and supplements thereto, in order to effect the registration of any Registrable Securities under the Securities Act pursuant to Section 2 and in connection with the Company's obligation to comply with federal and applicable state securities laws.

4. INDEMNIFICATION AND CONTRIBUTION.

4.1 Indemnification by the Company. The Company agrees to indemnify and hold harmless each Investor and each other holder of Registrable Securities, and each of their respective officers, employees, affiliates, directors, partners, members, attorneys and agents, and each person, if any, who controls the Investor and each other holder of Registrable Securities (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) (each, an "**Investor Indemnified Party**"), from and against any expenses, losses, judgments, claims, damages or liabilities, whether joint or several, arising out of or based upon any untrue statement (or allegedly untrue statement) of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement, or arising out of or based upon any omission (or alleged omission) to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration; and the Company shall promptly reimburse the Investor Indemnified Party for any legal and any other expenses reasonably incurred by such Investor Indemnified Party in connection with investigating and defending any such expense, loss, judgment, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such expense, loss, claim, damage or liability arises out of or is based upon any untrue statement or allegedly untrue statement or omission or alleged omission made in such Registration Statement, preliminary prospectus, final prospectus, or summary prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Company, in writing, by such selling holder expressly for use therein. The Company also shall indemnify any Underwriter of the Registrable Securities, their officers, affiliates, directors, partners, members and agents and each person who controls such Underwriter on substantially the same basis as that of the indemnification provided above in this Section 4.1.

4.2 Indemnification by Holders of Registrable Securities. Each selling holder of Registrable Securities will, in the event that any registration is being effected under the Securities Act pursuant to this Agreement of any Registrable Securities held by such selling holder, indemnify and hold harmless the Company, each of its directors and officers and each underwriter (if any), and each other selling holder and each other person, if any, who controls another selling holder or such underwriter within the meaning of the Securities Act, against any expenses, losses, claims, judgments, damages or liabilities, whether joint or several, insofar as such expenses, losses, claims, judgments, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or allegedly untrue statement of a material fact contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or arise out of or are based upon any omission or the alleged omission to state a material fact required to be stated therein or necessary to make the statement therein not misleading, if the statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by such selling holder expressly for use therein, and shall reimburse the Company, its directors and officers, and each other selling holder or controlling person for any legal or other expenses reasonably incurred by any of them in connection with investigation or defending any such expense, loss, claim, damage, liability or action. Each selling holder's indemnification obligations hereunder shall be several and not joint and shall be limited to the amount of any net proceeds actually received by such selling holder.

4.3 Conduct of Indemnification Proceedings. Promptly after receipt by any person of any notice of any loss, claim, damage or liability or any action in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (the "**Indemnified Party**") shall, if a claim in respect thereof is to be made against any other person for indemnification hereunder, notify such other person (the "**Indemnifying Party**") in writing of the loss, claim, judgment, damage, liability or action; provided, however, that the failure by the Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which the Indemnifying Party may have to such Indemnified Party hereunder, except and solely to the extent the Indemnifying Party is actually prejudiced by such failure. If the Indemnified Party is seeking indemnification with respect to any claim or action brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in such claim or action, and, to the extent that it wishes, jointly with all other Indemnifying Parties, to assume control of the defense thereof with counsel satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of such claim or action, the Indemnifying Party shall not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that in any action in which both the Indemnified Party and the Indemnifying Party are named as defendants, the Indemnified Party shall have the right to employ separate counsel (but no more than one such separate counsel) to represent the Indemnified Party and its controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Indemnifying Party, with the fees and expenses of such counsel to be paid by such Indemnifying Party if, based upon the written opinion of counsel of such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, consent to entry of judgment or effect any settlement of any claim or pending or threatened proceeding in respect of which the Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such judgment or settlement includes an unconditional release of such Indemnified Party from all liability arising out of such claim or proceeding.

4.4 Contribution.

4.4.1. If the indemnification provided for in the foregoing Sections 4.1, 4.2 and 4.3 is unavailable to any Indemnified Party in respect of any loss, claim, damage, liability or action referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the Indemnified Parties and the Indemnifying Parties in connection with the actions or omissions which resulted in such loss, claim, damage, liability or action, as well as any other relevant equitable considerations. The relative fault of any Indemnified Party and any Indemnifying Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such Indemnified Party or such Indemnifying Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

4.4.2. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in Section 4.4.1.

4.4.3. The amount paid or payable by an Indemnified Party as a result of any loss, claim, damage, liability or action referred to in Section 4.4.1 shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no holder of Registrable Securities shall be required to contribute any amount in excess of the dollar amount of the net proceeds (after payment of any underwriting fees, discounts, commissions or taxes) actually received by such holder from the sale of Registrable Securities which gave rise to such contribution obligation. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

5. UNDERWRITING AND DISTRIBUTION.

5.1 Rule 144. The Company covenants that it shall use its best efforts to file any reports required to be filed by it under the Securities Act and the Exchange Act and shall take such further action as the holders of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holders to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act, as such Rules may be amended from time to time, or any similar Rule or regulation hereafter adopted by the Commission.

6. MISCELLANEOUS.

6.1 Assignment; Third Party Beneficiaries. This Agreement and the rights, duties and obligations of the Company hereunder may not be assigned or delegated by the Company in whole or in part. This Agreement and the rights, duties and obligations of the holders of Registrable Securities hereunder may be, and shall be deemed to be, freely assigned or delegated by such holder of Registrable Securities in conjunction with and to the extent of any permitted transfer of Registrable Securities by any such holder. This Agreement and the provisions hereof shall be binding upon and shall inure to the benefit of each of the parties and their successors and permitted assigns.

6.2 Notices. All notices, demands, requests, consents, approvals or other communications required or permitted to be given hereunder or which are given with respect to this Agreement shall be in writing and shall be personally served, delivered by reputable air courier service with charges prepaid, or transmitted by hand delivery, telex or facsimile, addressed as set forth below, or to such other address as such party shall have specified most recently by written notice. Notice shall be deemed given on the date of service or transmission if personally served or transmitted by telex or facsimile; provided, that if such service or transmission is not on a business day or is after normal business hours, then such notice shall be deemed given on the next business day. Notice otherwise sent as provided herein shall be deemed given on the next business day following timely delivery of such notice to a reputable air courier service with an order for next-day delivery.

If to the Company, at:

International Surf Resorts, Inc.
1097 Country Coach Drive, Suite 705
Henderson, Nevada 89002
Attention of CEO
Tel: (888) 689-0930
Fax: (949) 706-1475

With a copy (which shall not constitute notice) to:

Sichenzia Ross Friedman Ference LLP
61 Broadway, 32nd Floor
New York, New York 10006
Attention of Harvey Kesner, Esq.
Tel: (212) 930-9700
Fax: (212) 930-9725

(a) If to an Investor, to the address on the signature page hereto.

With a copy (which shall not constitute notice) to:
Broadband Capital Management LLC
712 Fifth Avenue, 22nd floor
New York N.Y. 10019
Attention of [Philip Wagenheim]
Tel: (212) 277-5300
Fax: (212) 702-9830

and:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
The Chrysler Center
666 Third Avenue
New York, NY 10017
Attention of Kenneth R. Koch, Esq.
Tel: (212) 935-3000
Fax: (212 983-3115

6.3 Severability. Any provision of this Agreement which is invalid or unenforceable in any jurisdiction shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible that is valid and enforceable.

6.4 Counterparts. This Agreement may be executed in counterparts, and either party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original and both of which counterparts taken together shall constitute but one and the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

6.5 Entire Agreement. This Agreement and the documents, instruments and other agreements specifically referred to herein or delivered pursuant hereto set forth the entire understanding of the parties hereto with respect to the subject matter hereof. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement.

6.6 Modifications and Amendments. No amendment, modification or termination of this Agreement shall be binding upon any party unless executed in writing by such party.

6.7 Titles and Headings. Titles and headings of sections of this Agreement are for convenience only and shall not affect the construction of any provision of this Agreement.

6.8 Waivers and Extensions. Any party to this Agreement may waive any right, breach or default which such party has the right to waive, provided that such waiver will not be effective against the waiving party unless it is in writing, is signed by such party, and specifically refers to this Agreement. Waivers may be made in advance or after the right waived has arisen or the breach or default waived has occurred. Any waiver may be conditional. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof nor of any other agreement or provision herein contained. No waiver or extension of time for performance of any obligations or acts shall be deemed a waiver or extension of the time for performance of any other obligations or acts.

6.9 Remedies Cumulative. In the event that the Company fails to observe or perform any covenant or agreement to be observed or performed under this Agreement, the Investor or any other holder of Registrable Securities may proceed to protect and enforce its rights by suit in equity or action at law, whether for specific performance of any term contained in this Agreement or for an injunction against the breach of any such term or in aid of the exercise of any power granted in this Agreement or to enforce any other legal or equitable right, or to take any one or more of such actions, without being required to post a bond. None of the rights, powers or remedies conferred under this Agreement shall be mutually exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy, whether conferred by this Agreement or now or hereafter available at law, in equity, by statute or otherwise.

6.10 Governing Law. This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the State of Delaware, without giving effect to any choice of law or conflict of laws rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

6.11 Waiver of Trial by Jury. Each party hereby irrevocably and unconditionally waives the right to a trial by jury in any action, suit, counterclaim or other proceeding (whether based on contract, tort or otherwise) arising out of, connected with or relating to this Agreement, the transactions contemplated hereby, or the actions of the Investor in the negotiation, administration, performance or enforcement hereof.

(Remainder of page intentionally left blank. Signature pages to follow.)

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement or caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

THE COMPANY:

INTERNATIONAL SURF RESORTS, INC.
By: _____
Name:
Title:

Investor Signature Page

IN WITNESS WHEREOF, the parties hereto have caused this Registration Rights Agreement to be duly executed by their resepctive authorized signatories as of the date first indicated above.

INVESTOR:

INTERNATIONAL SURF RESORTS, INC.
By: _____
Name:
Title:

Address for Notice:

Attention of:
Telephone:
Facsimile:

Exhibit D

FORM OF ESCROW AGREEMENT

ESCROW AGREEMENT

This ESCROW AGREEMENT (this **"Agreement")** made as of February _, 2011. by and among International Surf, Inc. (the **"Issuer")** and Broadband Capital Management LLC (the **"Placement Agent"),** whose addresses and other information appear on the Information Sheet (as defined herein) attached to this Agreement, and Continental Stock Transfer & Trust Company, 17 Battery Place. 8th Floor, New York, NY 10004 (the **"Escrow Agent").**

WITNESSETH:

WHEREAS. the Issuer and certain purchasers will be entering into the securities purchase agreement (the **"Purchase Agreement"),** pursuant to which the Issuer shall issue and sell to each of the purchasers, and each of the purchasers shall purchase from the Issuer, (i) secured convertible promissory notes (the "Notes"), in an aggregate principal amount of two million Dollars ($2,000,000) (the **"Minimum Offering Amount"),** and (ii) a warrant. to purchase securities issuable in the PIPE Offering (as defined below), for a total aggregate purchase price of two million Dollars ($2,000,000) (the **"subscription monies,"** and the foregoing transaction shall be referred to as the **"Transaction"):**

WHEREAS. within one hundred (120) days from the closing date of the transactions contemplated by the Purchase Agreement (the **"Closing Date"),** the Issuer will consummate a transaction with a target, all as more fully set forth in the Purchase Agreement; (the **"Target Transaction");**

WHEREAS, immediately after or simultaneously with the Target Transaction, the Issuer shall use its best efforts to close a private placement of its securities yielding gross proceeds to the Issuer of at least eight million Dollars ($8.000.000) (the **"PIPE Offering");**

WHEREAS, the Offering Proceeds is intended to be used by the Company for the Use of Proceeds (as defined in the Purchase Agreement):

WHEREAS. in order to implement the intended Use of Proceeds. the subscription monies shall be deposited by the purchasers directly into an escrow account (the "Escrow

Account") established at the Escrow Agent, such subscription monies to be held and released in accordance with the terms hereof;

WHEREAS, the Escrow Agent has agreed to establish a special hank account at J.P. Morgan Chase Bank (the **-Bank-)** into which the subscription monies, which will be received by the Escrow Agent from the purchasers and credited to the Escrow Account, are to be deposited.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged. the parties hereto hereby agree as follows:

1. Information Sheet. Each capitalized term not otherwise defined in this Agreement shall have the meaning set forth for such term on the information sheet which is attached to this Agreement as Exhibit A and is incorporated by reference herein and made a part hereof (the **"Information Sheet").**

2. Establishment of the Bank Account.

2.1 The Escrow Agent shall establish a non-interest-bearing bank account at the branch of Bank selected by the Escrow Agent, and bearing the designation set forth on the Information Sheet (heretofore defined as the **"Bank Account").** The purpose of the Bank Account is for (a) the deposit of all subscription monies (checks or wire transfers) from prospective purchasers of the Securities which are delivered to the Escrow Agent, (b) the holding of amounts of subscription monies which are collected through the banking system and (c) the disbursement of collected funds, all as described herein.

2.2 On or before the date of the initial deposit in the Bank Account pursuant to this Agreement, the Placement Agent shall notify the Escrow Agent in writing of the date of the commencement of the Offering (the **-Effective Date"),** and the Escrow Agent shall not be required to accept any amounts for credit to the Escrow Account or for deposit in the Bank Account prior to its receipt of such notification.

2.3 The **"Offering Period,"** which shall be deemed to commence on the Effective Date, shall consist of the number of calendar days or business days set forth on the Information Sheet. The Offering Period shall be extended at the Placement Agent's discretion (an **"Extension Period")** only if the Escrow Agent shall have received written notice thereof prior to the expiration of the Offering Period. The Extension Period, which shall be deemed to commence on the next calendar day following the expiration of the Offering Period, shall consist of the number of calendar days or business days set forth on the Information Sheet. The last day of the Offering Period, or the last day of the Extension Period (if the Escrow Agent has received written notice thereof as herein above provided), is referred to herein as the **"Termination Date".** Except as provided in Section 4.3 hereof, after the Termination Date, the Placement Agent shall not deposit, and the Escrow Agent shall not accept, any additional amounts representing payments by prospective purchasers.

3. Deposits to the Bank Account.

3.1 All monies which the Escrow Agent receives from prospective purchasers of the Securities shall be in the form of checks or wire transfers, provided however that "Cashiers" checks and "Money Orders" must be in amounts greater than $10,000; Cashiers checks or Money Orders in amounts less than $10,000 shall be rejected by the Escrow Agent. Upon the Escrow Agent's receipt of such monies, they shall be credited to the Escrow Account. All checks delivered to the Escrow Agent shall be made payable to "CST&T AAF International Surf Escrow Account." Any check payable other than to the Escrow Agent as required hereby shall be returned to the prospective purchaser, or if the Escrow Agent has insufficient information to do so, then to the Placement Agent (together with any Subscription Information, as defined below or other documents delivered therewith) by noon of the next business day following receipt of such check by the Escrow Agent, and such check shall be deemed not to have been delivered to the Escrow Agent pursuant to the terms of this Agreement.

3.2 Promptly after receiving subscription monies as described in Section 3.1, the Escrow Agent shall deposit the same into the Bank Account. Amounts of monies so deposited are hereinafter referred to as **"Escrow Amounts."** The Escrow Agent shall cause the Bank to process all Escrow Amounts for collection through the banking system. Simultaneously with each deposit to the Escrow Account, the Placement Agent (or the Issuer, if such deposit is made by the Issuer) shall inform the Escrow Agent in writing of the name, address, and the tax identification number of the purchaser, the amount of Securities subscribed for by such purchase, and the aggregate dollar amount of such subscription (collectively, the **"Subscription Information").**

3.3 The Escrow Agent shall not be required to accept for credit to the Escrow Account or for deposit into the Bank Account checks which are not accompanied by the appropriate Subscription Information, which at minimum shall include the name address, tax identification number and the number of shares/units. Wire transfers representing payments by prospective purchasers shall not be deemed deposited in the Escrow Account until the Escrow Agent has received in writing the Subscription Information required with respect to such payments.

3.4 The Escrow Agent shall not be required to accept in the Escrow Account any amounts representing payments by prospective purchasers, whether by check or wire, except during the Escrow Agent's regular business hours.

3.5 Only those Escrow Amounts, which have been deposited in the Bank Account and which have cleared the banking system and have been collected by the Escrow Agent, are herein referred to as the **"Fund."**

3.6 If the Offering is terminated before the Termination Date, the Escrow Agent shall refund any portion of the Fund prior to disbursement of the Fund in accordance with Article 4 hereof upon instructions in writing signed by both the Issuer and the Placement Agent.

4. Disbursement from the Bank Account.

4.1 If by the close of regular banking hours on the Termination Date the Escrow Agent determines that the amount in the Fund is less than the Minimum Offering Amount, as indicated by the Subscription Information submitted to the Escrow Agent, then in either such case. the Escrow Agent shall promptly refund to each prospective purchaser the amount of payment received from such purchaser which is then held in the Fund or which thereafter clears the banking system, without interest thereon or deduction there from. by drawing checks on the Bank Account for the amounts of such payments and transmitting them to the purchasers. In such event, the Escrow Agent shall promptly notify the Issuer and the Placement Agent of its distribution of the Fund.

4.2 At any time up to the close of regular banking hours on any business day. upon receipt by the Escrow Agent of joint written instructions from the Issuer and the Placement Agent stating (i) that any one of the following conditions for release of any or all of the Fund has been met for disbursement; (ii) the amount that should be disbursed, and (iii) the party to whom such amount should be disbursed, the Escrow Agent shall promptly disburse the Fund only in accordance with such written instructions:

a. The Transaction is terminated before the Closing Date pursuant to Section 3.6 hereof,

b. Some or all of the Fund should be disbursed to the Issuer as a Use of Proceeds:

c. Some or all of the Fund should be disbursed to a purchaser because it has exercised its right to a PIPE Redemption (as defined in the Purchase Agreement); or

d. Some or all of the Fund should be disbursed to the Issuer because a purchaser has exercised its right to a PIPE Conversion (as defined in the Purchase Agreement).

4.3 Upon disbursement of the entire Fund pursuant to the terms of this Article 4. the Escrow Agent shall be relieved of further obligations and released from all liability under this Agreement. It is expressly agreed and understood that in no event shall the aggregate amount of payments made by the Escrow Agent exceed the amount of the Fund.

5. Rights, Duties and Responsibilities of Escrow Agent. It is understood and agreed that the duties of the Escrow Agent are purely ministerial in nature, and that:

5.1 The Escrow Agent shall notify the Placement Agent, on a daily basis, of the Escrow Amounts which have been deposited in the Bank Account and of the amounts, constituting the Fund, which have cleared the banking system and have been collected by the Escrow Agent.

5.2 The Escrow Agent shall not be responsible for or be required to enforce any of the terms or conditions of the Purchase Agreement or any other agreement between the Placement Agent and the Issuer nor shall the Escrow Agent be responsible for the performance by the Placement Agent or the Issuer of their respective obligations under this Agreement.

5.3 The Escrow Agent shall not be required to accept from the Placement Agent, the Issuer or any purchaser any Subscription Information pertaining to prospective purchasers unless such Subscription Information is accompanied by checks or wire transfers meeting the requirements of Section 3.1. nor shall the Escrow Agent be required to keep records of any information with respect to payments deposited by the Placement Agent, the Issuer or any purchaser except as to the amount of such payments: however, the Escrow Agent shall notify the Placement Agent within a reasonable time of any discrepancy between the amount set forth in any Subscription Information and the amount delivered to the Escrow Agent therewith. Such amount need not be accepted for deposit in the Escrow Account until such discrepancy has been resolved.

5.4 The Escrow Agent shall he under no duty or responsibility to enforce collection of any check delivered to it hereunder. The Escrow Agent, within a reasonable time, shall return to the Placement Agent any check received which is dishonored, together with the Subscription Information, if any, which accompanied such check.

5.5 The Escrow Agent shall he entitled to rely upon the accuracy, act in reliance upon the contents, and assume the genuineness of any notice, instruction, certificate, signature, instrument or other document which is given to the Escrow Agent pursuant to this Agreement without the necessity of the Escrow Agent verifying the truth or accuracy thereof. The Escrow Agent shall not be obligated to make any inquiry as to the authority, capacity, existence or identity of any person purporting to give any such notice or instructions or to execute any such certificate, instrument or other document.

5.6 If the Escrow Agent is uncertain as to its duties or rights hereunder or shall receive instructions with respect to the Bank Account, the Escrow Amounts or the Fund which, in its sole determination. are in conflict either with other instructions received by it or with any provision of this Agreement. it shall be entitled to hold the Escrow Amounts, the Fund, or a portion thereof in the Bank Account pending the resolution of such uncertainty to the Escrow Agent's sole satisfaction, by final judgment of a court or courts of competent jurisdiction or otherwise.

5.7 The Escrow Agent shall not be liable for any action taken or omitted hereunder. or for the misconduct of any employee, agent or attorney appointed by it, except in the case of willful misconduct or gross negligence. The Escrow Agent shall he entitled to consult with counsel of its own choosing and shall not be liable for any action taken, suffered or omitted by it in accordance with the advice of such counsel.

5.8 The Escrow Agent shall have no responsibility at any time to ascertain whether or not any security interest exists in the Escrow Amounts, the Fund or any part thereof or to file any financing statement under the Uniform Commercial Code with respect to the Fund or any part thereof

6. Amendment: Resignation or Removal of Escrow Agent. This Agreement may be altered or amended only with the written consent of the Issuer, the Placement Agent and the Escrow Agent. The Escrow Agent may resign and be discharged from its duties hereunder at any time by giving written notice of such resignation to the Issuer and the Placement Agent specifying a date when such resignation shall take effect and upon delivery of the Fund to the successor escrow agent designated by the Issuer or the Placement Agent in writing. Such successor Escrow Agent shall become the Escrow Agent hereunder upon the resignation date specified in such notice. If the Company fails to designate a successor Escrow Agent within thirty (30) days after such notice, then the resigning Escrow Agent shall deposit the Fund with any court it deems appropriate. The Escrow Agent shall continue to serve until its successor accepts the escrow and receives the Fund. The Company shall have the right at any time to remove the Escrow Agent and substitute a new escrow agent by giving notice thereof to the Escrow Agent then acting. Upon its resignation and delivery of the Fund as set forth in this Section 6. the Escrow Agent shall be discharged of and from any and all further obligations arising in connection with the escrow contemplated by this Agreement. Without limiting the provisions of Section 8 hereof, the resigning Escrow Agent shall be entitled to be reimbursed by the Issuer and the Placement Agent for any expenses incurred in connection with its resignation, transfer of the Fund to a successor escrow agent or distribution of the Fund pursuant to this Section 6.

7. Representations and Warranties. The Issuer and the Placement Agent hereby severally represent and warrant to the Escrow Agent that:

7.1 No party other than the parties hereto and the prospective purchasers have, or shall have, any lien, claim or security interest in the Escrow Amounts or the Fund or any part thereof.

7.2 The Subscription Information submitted with each deposit shall. at the time of submission and at the time of the disbursement of the Fund, be deemed a representation and warranty that such deposit represents a bona fide payment by the purchaser described therein for the amount of Securities set forth in such Subscription Information.

7.3 The Placement Agent has filed a financing statement under the Uniform Commercial Code in the State of Nevada claiming a first priority security interest in the Escrow Amounts or the Fund or any part thereof.

7.3 Reasonable controls have been established and required due diligence performed to comply with "Know Your Customer" regulations, USA Patriot Act, Office of Foreign Asset Control (OFAC) regulations and the Bank Secrecy Act.

8. Fees and Expenses. The Escrow Agent shall be entitled to the Escrow Agent Fees set forth on the Information Sheet, payable as and when stated therein. In addition. the Issuer and the Placement Agent jointly and severally agree to reimburse the Escrow Agent for any reasonable expenses incurred in connection with this Agreement, including, but not limited to. reasonable counsel fees

9. Indemnification and Contribution.

9.1 The Issuer and the Placement Agent (collectively referred to as the 'Indemnitors") jointly and severally agree to indemnify the Escrow Agent and its officers, directors, employees, agents and shareholders (collectively referred to as the **"Indemnitees")** against, and hold them harmless of and from, any and all loss, liability, cost, damage and expense, including without limitation, reasonable counsel fees, which the Indemnitees may suffer or incur by reason of any action, claim or proceeding brought against the Indemnitees arising out of or relating in any way to this Agreement or any transaction to which this Agreement relates, unless such action, claim or proceeding is the result of the fraud, willful misconduct or gross negligence of the Indemnitees.

9.2 If the indemnification provided for in Section 9.1 is applicable, but for any reason is held to be unavailable, the Indemnitors shall contribute such amounts as are just and equitable to pay, or to reimburse the Indemnitees for the aggregate of any and all losses, liabilities, costs, damages and expenses, including counsel fees, actually incurred by the Indemnitees as a result of or in connection with, and any amount paid in settlement of, any action, claim or proceeding arising out of or relating in any way to any actions or omissions of the Indemnitors.

9.3 The provisions of this Article 9 shall survive any termination of this Agreement, whether by disbursement of the Fund, resignation of the Escrow Agent or otherwise.

10. Termination of Agreement. This Agreement shall terminate on the final disposition of the Fund pursuant to Section 4, provided that the rights of the Escrow Agent and the obligations of the other parties hereto under Section 9 shall survive the termination hereof and the resignation or removal of the Escrow Agent.

II. Governing Law and Assignment. This Agreement shall be construed in accordance with and governed by the laws of the State of New York, without regard to the conflicts of laws principles thereof, and shall be binding. upon the parties hereto and their respective successors and assigns: provided, however, that any assignment or transfer by any party of its rights under this Agreement or with respect to the Escrow Amounts or the Fund shall be void as against the Escrow Agent unless (a) written notice thereof shall be given to the Escrow Agent: and (b) the Escrow Agent shall have consented in writing to such assignment or transfer.

12. Notices. All notices required to be given in connection with this Agreement shall be sent by registered or certified mail, return receipt requested. or by hand delivery with receipt acknowledged, or by the Express Mail service offered by the United States Postal Service, and addressed, if to the Issuer or the Placement Agent, at their respective addresses set forth on the Information Sheet, and if to the Escrow Agent. at its address set forth above, to the attention of the Trust Department.

13. Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be determined to be invalid or unenforceable. The remaining provisions of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid or unenforceable shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

14. Execution in Several Counterparts. This Agreement may be executed in several counterparts or by separate instruments and by facsimile transmission and all of such counterparts and instruments shall constitute one agreement, binding on all of the parties hereto.

15. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings (written or oral) of the parties in connection therewith.

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

CONTINENTAL STOCK TRANSFER & TRUST COMPANY

By: _____
Name:
Title:

BROADBAND CAPITAL MANAGEMENT LLC

("Placement Agent")

By: _____
Name:
Title:

INTERNATIONAL SURF RESORTS, INC.

("Issuer)

By: _____
Name:

Exhibit E

FORM OF SECURITY AND PLEDGE AGREEMENT

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Security Agreement"), dated as of February __, 2011, is made by and between International Surf Resorts, Inc., a Nevada corporation (the "Grantor"), and Broadband Capital Management LLC, as collateral agent (the "Collateral Agent") on behalf of and for the benefit of the Purchasers as defined in that certain Securities Purchase Agreement with the Grantor, dated the date hereof (the "Purchase Agreement;" and the Purchasers, together with the Collateral Agent, are collectively referred to herein as the "Secured Parties").

WHEREAS, pursuant to the Purchase Agreement, the Grantor agreed to sell and issue to the Purchasers, and the Purchasers agreed to purchase, secured convertible promissory notes (the "Notes") and certain other securities;

WHEREAS, it is a condition precedent to the issuance of the Notes and such other securities that the Grantor and the Collateral Agent, for the benefit of the Purchasers, enter into this Security Agreement, pursuant to which the Grantor will grant to the Secured Parties a first priority security interest in all of the assets of the Grantor, including the pledge by the Grantor to the Secured Parties of its interests in the Pledged Equity, in order to secure the obligations of the Grantor under the Notes; and

WHEREAS, the Purchasers have appointed Broadband Capital Management LLC as Collateral Agent under the terms of the Purchase Agreement.

In consideration of the foregoing, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Grantor, the Collateral Agent and the Purchasers hereby agree as follows:

SECTION 1. Grant of Security Interest. As collateral security for the payment and performance when due of the Obligations (defined below), Grantor hereby collaterally assigns, mortgages, and pledges to the Secured Parties, and hereby grants to the Secured Parties a first priority security interest in all of Grantor's right, title and interest in, to and under the Collateral (defined below). Grantor agrees that this Security Agreement shall create a first priority continuing security interest in the Collateral which shall remain in effect until the payment and performance in full of all of the Obligations.

SECTION 2. Collateral Agent's Rights and Obligations. Grantor shall remain liable under all accounts, accounts receivable, instruments and documents and general intangibles. The Collateral Agent shall not have any obligation or liability under any accounts, accounts receivable, instruments and documents or general intangibles by reason of this Security Agreement or the exercise of Collateral Agent's rights and remedies hereunder, nor shall the Collateral Agent be required to perform Grantor's obligations pursuant thereto. At any time, the Collateral Agent shall have the right to verify accounts receivable constituting a portion of the Collateral and Grantor agrees to cooperate with the Collateral Agent in arranging for such verification. After the occurrence of an Event of Default (defined below), the Collateral Agent may notify account debtors that the accounts receivable have been assigned to the Collateral Agent and that payments may be made directly to the Collateral Agent or as otherwise directed by the Collateral Agent. At the request of the Collateral Agent at any time after the occurrence of an Event of Default, the Grantor will so notify such account debtors. Notwithstanding any such action, the Collateral Agent shall have no obligation to inquire as to the sufficiency of any payment received by it on account of any of Grantor's accounts receivable or to take any action to collect or enforce the payment of any account receivable.

SECTION 3. Definitions; Interpretation.

(a) As used in this Security Agreement, the following terms shall have the following meanings:

"Collateral" means all assets, including without limitations, as described on Exhibit A attached hereto, except to the extent any such property (i) is non-assignable by its terms without the consent of the licensor thereof or another party, (ii) the granting of a security interest therein is contrary to applicable law, or (iii) that is now or hereafter subject to a lien within the meaning of subsection (vii) of the definition of "Permitted Liens" in this Section 4.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Event of Default" has the meaning set forth in the Purchase Agreement.

"Intellectual Property" means all of Grantor's right, title, and interest in and to the following, including such intellectual property owned on the date hereof and set forth on Schedule 1 annexed hereto, except to the extent any security interest hereunder would cause any application for a Trademark to be deemed invalidated, canceled or abandoned due to the grant and/or enforcement of such security interest, including, without limitation, all U.S. trademark applications that are based on an intent-to-use, unless and until such time that the grant and/or enforcement of the security interest will not affect the status or validity of such trademark:

(a) Copyrights, Trademarks and Patents;

(b) and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) and all design rights which may be available to Grantor now or hereafter existing, created, acquired or held;

(d) and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Lien" means any mortgage, deed of trust, pledge, security interest, assignment, deposit arrangement, charge or encumbrance, lien, or other type of preferential arrangement.

"Obligations" means all obligations and liabilities of every nature of Grantor now or hereafter existing under or arising out of or in connection with the Notes, the Purchase Agreement, the Guarantee and Pledge Agreement and all other documents, instruments or certificates required to be delivered by Grantor at or prior to the Closing pursuant to the Purchase Agreement (collectively, the "Purchase Documents"); together with all extensions or renewals thereof, whether for principal, interest, fees, expenses, indemnities or otherwise, whether voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owned with others, and whether or not from time to time decreased or extinguished and later increased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Parties as a preference, fraudulent transfer or otherwise, and all obligations of every nature of Grantor now or hereafter existing under this Security Agreement (including, without limitation, interest and other amounts that, but for the filing of a petition in bankruptcy with respect to Grantor, would accrue on such obligations, whether or not a claim is allowed against Grantor for such amounts in the related bankruptcy proceeding).

"Patents**"** means all patents, patent applications and like protections, including, without limitation, improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Permitted Liens" mean: (i) Liens in favor of the Secured Parties in respect of the Obligations hereunder; (ii) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and which are adequately reserved for in accordance with U.S. GAAP; (iii) Liens of materialmen, mechanics, warehousemen, carriers or employees or other like Liens arising in the ordinary course of business and securing obligations either not delinquent or being contested in good faith by appropriate proceedings; (iv) Liens consisting of deposits or pledges to secure the payment of worker's compensation, unemployment insurance or other social security benefits or obligations, or to secure the performance of bids, trade contracts, leases, public or statutory obligations, surety or appeal bonds or other obligations of a like nature incurred in the ordinary course of business; (v) easements, rights of way, servitudes or zoning or building restrictions and other minor encumbrances on real property and irregularities in the title to such property which do not in the aggregate materially impair the use or value of such property or risk the loss or forfeiture of title thereto; (vi) Liens upon or in any equipment now or hereafter acquired or held by the Grantor to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing or refinancing the acquisition of such equipment, provided that the Lien is confined solely to the equipment so acquired and accessions thereon and proceeds thereof; (vii) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (i) and (ii) and (vi) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase other than for accrued interest and premium on the amount of principal being extended, refinanced or renewed.

"Person" means an individual, corporation, partnership, joint venture, trust, unincorporated organization, governmental agency or authority, or any other entity of whatever nature.

"Pledged Equity" means all shares of stock, partnership interests, limited liability company interests and all other equity interests in a Person, whether such stock or interests are classified as Investment Property or General Intangibles under the UCC now or hereafter owned by Grantor, including all securities convertible into, and rights, warrants, options and other rights to purchase or otherwise acquire, any of the foregoing, including those owned on the date hereof and set forth on Schedule 2 annexed hereto, the certificates or other instruments representing any of the foregoing and any interest of Grantor in the entries on the books of any securities intermediary pertaining thereto and all distributions, dividends and other property received, receivable or otherwise distributed in respect of or exchanged therefor.

"Purchase Documents" means this Security Agreement, the Purchase Agreement, and the Note, each as amended, modified, renewed, extended or replaced from time to time.

"Secured Parties" means the Collateral Agent and all Purchasers.

"Trademarks**"** means any trademark and service mark rights, whether registered or not, applications to register and registrations of the same and like protections, and the parts of the goodwill of the business connected with the use of and symbolized by such marks.

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Nevada.

(b) Where applicable and except as otherwise defined herein, terms used in this Security Agreement shall have the meanings assigned to them in the UCC. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Purchase Agreement or if not defined there in the Note.

(c) In this Security Agreement, (i) the meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined; (ii) the captions and headings are for convenience of reference only and shall not affect the construction of this Security Agreement; (iii) the words "hereof," "herein," "hereto," "hereunder" and the like mean and refer to this Security Agreement as a whole and not merely to the specific Article, Section, subsection, paragraph or clause in which the respective word appears; (iv) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation;" and (v) the term "or" shall not be limiting.

SECTION 4. First Priority Security Interest.

(a) Subject to Permitted Liens, as security for the payment and performance of the Obligations, the Grantor hereby pledges, assigns and grants to the Secured Parties, a first priority security interest in all of the Grantor's right, title and interest in, to and under all of the Collateral that shall remain in effect until terminated in accordance with Section 20 hereof.

SECTION 5. Financing Statements, Etc. The Grantor hereby authorizes the Collateral Agent to file (with a copy thereof to be provided to the Grantor contemporaneously therewith), at any time and from time to time thereafter, all financing statements, financing statement assignments, continuation financing statements, and UCC filings, in form reasonably satisfactory to the Collateral Agent. The Grantor shall execute and deliver and shall take all other action, as the Collateral Agent may reasonably request, to perfect and continue perfected, maintain the priority of or provide notice of the security interest of the Secured Parties in the Collateral (subject to the terms hereof) and to accomplish the purposes of this Security Agreement. Without limiting the generality of the foregoing, the Grantor ratifies and authorizes the filing by the Collateral Agent of any financing statements filed prior to the date hereof that accomplish the purposes of this Security Agreement.

SECTION 6. Representations and Warranties. The Grantor represents and warrants to the Collateral Agent that:

(a) Grantor's full legal name, as it appears in official filings in the State of Nevada, is International Surf Resorts, Inc. Grantor is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Nevada and has all requisite power and authority to execute, deliver and perform its obligations under this Security Agreement. Grantor has not within the five year period preceding the date hereof had a different name from Surf A Movie Solutions, Inc.

(b) The execution, delivery and performance by the Grantor of this Security Agreement has been duly authorized by all necessary corporate action of the Grantor, and this Security Agreement constitutes the legal, valid and binding obligation of the Grantor, enforceable against the Grantor in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(c) Except for the filing of appropriate financing statements, no authorization, consent, approval, license, exemption of, or filing or registration with, any governmental authority or agency, or approval or consent of any other Person, is required for the due execution, delivery or performance by the Grantor of this Security Agreement unless the same has already been obtained or is being obtained simultaneously in connection herewith.

(d) This Security Agreement creates a first priority security interest that is enforceable against the Collateral and will create a first priority security interest that is enforceable against the Collateral in which the Grantor hereafter acquires rights at the time the Grantor acquires any such rights.

(e) The Grantor has the right and power to grant the pledge and security interests in the Collateral to the Secured Parties in the Collateral, and the Grantor is the sole and complete owner of the Collateral, free from any Lien other than the liens and security interests in favor of the Secured Parties, and the other Permitted Liens.

(f) Grantor acknowledges and agrees that the Lien that secures the Obligations (A) is separate and distinct from any and all other Liens on the Collateral, (B) is enforceable without regard to whether or not any other Lien shall be or become void, voidable or unenforceable or the indebtedness, obligations or liabilities secured by any such other Lien shall be discharged, whether by payment, performance, avoidance or otherwise, and (C) shall not merge with or be impaired by any other Lien.

(g) A true and complete list of all Intellectual Property owned by Grantor, in whole or in part; is set forth on Schedule 1 attached hereto.

(h) Schedule 2 attached hereto sets forth all of the Pledged Equity owned by the Grantor, and the percentage ownership in each issuer thereof.

SECTION 7. Covenants of the Grantor. Until this Security Agreement has terminated in accordance with Section 20 hereof, the Grantor agrees to do the following:

(a) The Grantor shall give prior written notice to the Collateral Agent (and in any event not later than thirty (30) days prior to any change described below in this subsection) of: (i) any change in the Grantor's name; (ii) any changes in the Grantor's identity or structure in any manner which might make any financing statement filed hereunder incorrect or misleading; or (iii) any change in jurisdiction of organization; provided that the Grantor shall not locate any Collateral outside of the United States nor shall the Grantor change its jurisdiction of organization to a jurisdiction outside of the United States.

(b) The Grantor shall not surrender or lose possession of (other than to the Secured Parties), sell, lease, rent or otherwise dispose of or transfer any of the Collateral or any right or interest therein, except in the ordinary course of business consistent with past practice and except to the extent of equipment that is obsolete or no longer useful to its business.

(c) The Grantor shall keep the Collateral free of all Liens except the liens and security interests in favor of the Secured Parties and the other Permitted Liens.

(d) The Grantor shall protect, defend and maintain the validity and enforceability of its material Intellectual Property; (ii) promptly advise Collateral Agent in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Grantor's business to be abandoned, forfeited or dedicated to the public without Collateral Agent's written consent.

(e) So long as no Event of Default shall have occurred and be continuing, the Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Equity or any part thereof for any purpose not inconsistent with the terms or purpose of this Security Agreement.

(f) Grantor shall not use or permit Collateral to be used in violation of any applicable law, rule or regulation or in violation of any policy of insurance covering the Collateral.

(g) Grantor shall maintain such insurance with respect to liabilities, losses or damage in respect of the assets and properties of Grantor as may customarily be carried or maintained under similar circumstances by corporations of established reputation engaged in similar businesses in such amounts, with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for corporations similarly situated in the industry.

(h) Grantor shall deliver any and all originals of Collateral consisting of certificates or Instruments to Collateral Agent, accompanied by Grantor's endorsement, where necessary of transfer or assignments in blank, in form and substance satisfactory to Collateral Agent.

(i) Grantor shall pay promptly when due all property and other taxes, assessments and government charges or levies imposed upon, and all claims (including claims for labor, services, materials and supplies) against, the Collateral except to the extent the validity thereof is being contested in good faith.

SECTION 8. Authorization; Collateral Agent Appointed Attorney-in-Fact. The Collateral Agent shall have the right, to, in the name of the Grantor, or in the name of the Secured Parties, upon notice to, but without the requirement of assent by the Grantor, and the Grantor hereby constitutes and appoints the Collateral Agent (and any employees or agents designated by the Collateral Agent) as the Grantor's true and lawful attorney-in-fact, with full power and authority to (a) upon and during the continuance of an Event of Default: (i) assert, adjust, sue for, compromise or release any claims under any policies of insurance; and (ii) execute any and all such other documents and instruments, and do any and all acts and things for and on behalf of the Grantor, that such Collateral Agent may deem necessary or advisable to maintain, protect, realize upon and preserve the Collateral and the Secured Parties' security interests therein and to accomplish the purposes of this Security Agreement and (b) to pay or discharge taxes or Liens (other than Liens permitted under this Security Agreement or the Purchase Documents) levied or placed upon or threatened against the Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by Collateral Agent in its sole discretion, any such payments made by Collateral Agent to become obligations of Grantor to Collateral Agent, due and payable immediately without demand. The foregoing power of attorney is coupled with an interest and is irrevocable so long as the Obligations have not been indefeasibly paid and performed in full and the commitments not terminated. The Grantor hereby ratifies, to the extent permitted by law, all that the Collateral Agent shall lawfully and in good faith do or cause to be done by virtue of and in compliance with this Section 9.

SECTION 9. Remedies.

(a) Upon the occurrence and during the continuance of an Event of Default (as defined in the Purchase Agreement), the Collateral Agent as agent for the Secured Parties shall have, in addition to all other rights and remedies granted to the Secured Parties in this Security Agreement, and all other Purchase Documents, all rights and remedies of a Collateral Agent under the UCC and other applicable laws. Without limiting the generality of the foregoing, upon the occurrence and during the continuance of an Event of Default, the Collateral Agent, upon the election of the holders of the majority-in-interest of the Notes, may sell, resell, lease, use, assign, license, sublicense, transfer or otherwise dispose of any or all of the Collateral in its then condition or following any commercially reasonable preparation or processing (utilizing in connection therewith any of Grantor's assets, without charge or liability to the Secured Parties therefor) at public or private sale, by one or more contracts, in one or more parcels, at the same or different times, for cash or credit, or for future delivery without assumption of any credit risk, all as the Collateral Agent deems advisable; provided, however, that the Grantor shall be credited with the net proceeds of sale only when such proceeds are finally collected by the Secured Parties. The Collateral Agent, upon the election of the majority-in-interest of the Notes, shall have the right upon any such public sale, and, to the extent permitted by law, upon any such private sale, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption, which right or equity of redemption the Grantor hereby releases, to the extent permitted by law. The Grantor hereby agrees that the sending of notice by ordinary mail, postage prepaid, to the address of the Grantor set forth herein or subsequent address that the Grantor provides to the Collateral Agent in writing, of the place and time of any public sale or of the time after which any private sale or other intended disposition is to be made, shall be deemed reasonable notice thereof if such notice is sent five (5) business days prior to the date of such sale or other disposition or the date on or after which such sale or other disposition may occur. Grantor hereby agrees that it will at its expense and upon request of the Collateral Agent forthwith, assemble all or part of the Collateral as directed by the Collateral Agent and make it available to the Collateral Agent at a place to be designated by the Collateral Agent that is reasonably convenient to both parties. Upon the occurrence and during the continuance of an Event of Default, Collateral Agent may (i) enter onto the property where any Collateral is located and take possession thereof with or without judicial process, (ii) prior to the disposition of the Collateral, store, process, repair or recondition the Collateral or otherwise prepare the Collateral for disposition in any manner to the extent Collateral Agent deems appropriate, (iii) take possession of Grantor's premises or place custodians in exclusive control thereof, remain on such premises and use the same and any of Grantor's equipment for the purpose of completing any work in process, taking any actions described in the preceding clause, and (iv) collecting any Obligation.

(b) The cash proceeds actually received from the sale or other disposition or collection of the Collateral, and any other amounts received in respect of the Collateral the application of which is not otherwise provided for herein shall be applied first, to the payment of the costs and expenses of the Secured Parties in exercising or enforcing its rights hereunder and in collecting or attempting to collect any of the Collateral, and to the payment of all other amounts payable to the Secured Parties pursuant to Section 14 hereof; and second, to the payment of the Obligations. Any surplus thereof that exists after payment and performance in full of the Obligations shall be promptly paid over to the Grantor or otherwise disposed of in accordance with the UCC or other applicable law. The Grantor shall remain liable to the Secured Parties for any deficiency that exists after any sale or other disposition or collection of the Collateral and Grantor shall be liable for the reasonable fees of any attorneys employed by the Secured Parties to collect such deficiency.

(c) Grantor recognizes that, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws, the Secured Parties may be compelled, with respect to any sale of all or any part of the Pledged Equity conducted without prior registration or qualification of such Pledged Equity under the Securities Act and/or such state securities laws, to limit purchasers to those who will agree, among other things, to acquire the Pledged Equity for their own respective accounts, for investment and not with a view to the distribution or resale thereof. Grantor acknowledges that any such private placement may be at prices and on terms less favorable than those obtainable through a sale without such restrictions (including an offering made pursuant to a registration statement under the Securities Act) and, notwithstanding such circumstances, Grantor agrees that any such private placement shall not be deemed, in and of itself, to be commercially unreasonable and that the Secured Parties shall have no obligation to delay the sale of any Pledged Equity for the period of time necessary to permit the issuer thereof to register it for a form of sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it. If the Secured Parties determine to exercise their right to sell any or all of the Pledged Equity, upon written request, Grantor shall and shall cause each issuer of any Pledged Equity to be sold hereunder from time to time to furnish to the Collateral Agent all such information as the Collateral Agent may request in order to determine the amount of Pledged Equity which may be sold by the Secured Parties in exempt transactions under the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, as the same are from time to time in effect.

(d) Upon the occurrence and during the continuation of an Event of Default, (x) upon written notice from Collateral Agent to Grantor, all rights of Grantor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant hereto shall cease, and all such rights shall thereupon become vested in the Collateral Agent who shall thereupon have the sole right to exercise such voting and other consensual rights; (y) except as otherwise specified in the Purchase Documents, all rights of Grantor to receive the dividends, other distributions, principal and interest payments which it would otherwise be authorized to receive and retain pursuant hereto shall cease, and all such rights shall thereupon become vested in the Collateral Agent who shall thereupon have the sole right to receive and hold as Collateral such dividends, other distributions, principal and interest payments; and (z) all dividends, principal, interest payments and other distributions which are received by Grantor contrary to the provisions of clause (y) above shall be received in trust for the benefit of the Secured Parties, shall be segregated from other funds of Grantor and shall forthwith be paid over to the Collateral Agent as Collateral in the same form as so received (with any necessary endorsements).

(e) In order to permit Secured Parties to exercise the voting and other consensual rights which they may be entitled to exercise pursuant hereto and to receive all dividends and other distributions which they may be entitled to receive hereunder, (I) Grantor shall promptly execute and deliver (or cause to be executed and delivered) to Collateral Agent all such proxies, dividend payment orders and other instruments as Collateral Agent may from time to time reasonably request, and (II) without limiting the effect of clause (I) above, Grantor hereby grants to Collateral Agent an irrevocable proxy to vote the Pledged Equity and to exercise all other rights, powers, privileges and remedies to which a holder of the Pledged Equity would be entitled (including giving or withholding written consents of holders of Equity Interests, calling special meetings of holders of Equity Interests and voting at such meetings), which proxy shall be effective, automatically and without the necessity of any action (including any transfer of any Pledged Equity on the record books of the issuer thereof) by any other Person (including the issuer of the Pledged Equity or any officer or agent thereof), upon the occurrence of an Event of Default and which proxy shall only terminate upon the payment in full of the Obligations, the cure of such Event of Default or waiver thereof as evidenced by a writing executed by Collateral Agent.

(f) Anything contained herein to the contrary notwithstanding, upon the occurrence and during the continuation of an Event of Default, (i) the Secured Parties shall have the right (but not the obligation) to bring suit, in the name of Grantor, the Secured Parties or otherwise, to enforce any Collateral constituting Intellectual Property, in which event Grantor shall, at the request of the Collateral Agent, do any and all lawful acts and execute any and all documents required by the Collateral Agent in aid of such enforcement and Grantor shall promptly, upon demand, reimburse and indemnify the Secured Parties as provided in Section 14 hereof, in connection with the exercise of its rights under this Section, and, to the extent that the Collateral Agent shall elect not to bring suit to enforce any Collateral constituting Intellectual Property as provided in this Section, Grantor agrees to use all reasonable measures, whether by action, suit, proceeding or otherwise, to prevent the infringement of any of the Collateral constituting Intellectual Property by others and for that purpose agrees to use its commercially reasonable judgment in maintaining any action, suit or proceeding against any Person so infringing reasonably necessary to prevent such infringement; (ii) upon written demand from the Collateral Agent, Grantor shall execute and deliver to Collateral Agent an assignment or assignments of the Collateral constituting Intellectual Property and such other documents as are necessary or appropriate to carry out the intent and purposes of this Security Agreement; and (iii) Grantor agrees that such an assignment and/or recording shall be applied to reduce the Obligations outstanding only to the extent that the Secured Parties receive cash proceeds in respect of the sale of, or other realization upon, the Collateral constituting Intellectual Property.

(g) In addition to, and not by way of limitation of, the granting of a security interest in the Collateral pursuant hereto, Grantor, effective upon the occurrence and during the continuation of an Event of Default, hereby assigns, transfers and conveys to the Secured Parties the nonexclusive right and license to use all Trademarks, Copyrights, Patents or technical processes owned or used by Grantor that relate to the Collateral, together with any goodwill associated therewith, all to the extent necessary to enable the Secured Parties to realize on the Collateral in accordance with this Security Agreement and to enable any transferee or assignee of the Collateral to enjoy the benefits of the Collateral. This right shall inure to the benefit of all successors, assigns and transferees of the Secured Parties and their successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license shall be granted free of charge, without requirement that any monetary payment whatsoever be made to Grantor.

SECTION 10. Secured Parties' Rights; Certain Waivers. The Grantor waives, to the fullest extent permitted by law: (i) any right of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of marshalling of the Collateral or other collateral or security for the Obligations; (ii) any right to require the Secured Parties to: (A) proceed against any Person, (B) exhaust any other collateral or security for any of the Obligations, (C) pursue any remedy in the Secured Parties power or (D) except as provided herein or in the Note, make or give any presentments, demands for performance, notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any of the Collateral; and (iii) all claims, damages and demands against the Secured Parties arising out of the repossession, retention, sale or application of the proceeds of any sale of the Collateral.

SECTION 11. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing, and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made: (i) if delivered by hand, when received, (ii) if sent by a nationally recognized courier service, one business day after delivery to such courier service, (iii) if transmitted by facsimile or e-mail, at the time such transmission is confirmed to the sender, (iv) if sent by certified mail, four business days after delivery to the postal system, in each case addressed as follows in the case of the Company and the Collateral Agent or to such other address as may be hereafter notified by the respective parties hereto:

If to Grantor:

Grantor:	International Surf Resorts, Inc. 1097 Country Coach Drive, Suite 705 Henderson, Nevada 89002 Attention of CEO Tel: (888) 689-0930 Fax: (___) ___-____
With a copy (which shall not constitute notice) to:	Sichenzia Ross Friedman Ference LLP 61 Broadway, 32nd Floor New York, New York 10006 Attention of Harvey Kesner, Esq. Tel: (212) 930-9700 Fax: (212) 930-9725

If to the Collateral Agent:

Collateral Agent:	Broadband Capital Management LLC 712 Fifth Avenue, 22nd floor New York N.Y. 10019 Attention of Philip Wagenheim Tel: (212) 277-5300 Fax: (212) 702-9830
With a copy (which shall not constitute notice) to:	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. The Chrysler Center 666 Third Avenue New York, NY 10017 Attention of Kenneth R. Koch, Esq. Tel: (212) 935-3000 Fax: (212 983-3115

SECTION 12. No Waiver; Cumulative Remedies. No failure on the part of the Collateral Agent to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights and remedies under this Security Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges that may otherwise be available to the Secured Parties.

SECTION 13. Costs and Expenses; Indemnity. The Grantor agrees to pay all reasonable costs and expenses of the Secured Parties, in connection with the enforcement of any rights or interests under, this Security Agreement and the sale or collection of, or other realization upon, any of the Collateral, including all reasonable expenses of taking, collecting, holding, sorting, handling, preparing for sale, selling or the like and other such expenses of sales and collections of the Collateral. Grantor agrees to indemnify the Secured Parties from and against any and all claims, losses and liabilities in any way relating to, growing out of or resulting from this Security Agreement and the transactions contemplated hereby (including, without limitation, enforcement of this Security Agreement), except to the extent such claims, losses or liabilities result solely from the Secured Parties' gross negligence or willful misconduct as finally determined by a court of competent jurisdiction. The obligations of Grantor in this Section 14 shall survive the termination of this Security Agreement and the discharge of Grantor's other obligations under this Security Agreement or the Purchase Documents.

SECTION 14. Binding Effect. This Security Agreement shall be binding upon, inure to the benefit of and be enforceable by the Grantor, the Collateral Agent and the Purchasers and their respective successors and assigns.

SECTION 15. Governing Law. This Security Agreement shall be governed by and construed under the laws of the State of New York without regard to its principles of conflict of laws.

SECTION 16. Entire Agreement; Amendment. This Security Agreement and the Purchase Documents contains the entire agreement of the parties with respect to the subject matter hereof and shall not be amended except by the written agreement of the Grantor, the Collateral Agent.

SECTION 17. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 18. Counterparts. This Security Agreement may be executed by one or more of the parties to this Security Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

SECTION 19. Termination. Upon the payment and performance in full of all Obligations, this Security Agreement shall terminate (except with respect to Section 14 hereof) and the Secured Parties shall promptly, at the cost of the Grantor, execute and deliver to the Grantor such documents and instruments reasonably requested by the Grantor as shall be necessary to evidence termination of all security interests given by the Grantor to the Secured Parties hereunder.

SECTION 20. Collateral Agent May Perform. If Grantor fails to perform any agreement contained herein, following notice to Grantor, Collateral Agent may itself perform, or cause performance of, such agreement, and the expenses of Collateral Agent incurred in connection therewith shall be payable by Grantor.

SECTION 21. Standard of Care. The powers conferred on Secured Parties hereunder are solely to protect their interest in the Collateral and shall not impose any duty upon them to exercise any such powers. Except for the exercise of reasonable care in custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, Secured Parties shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Secured Parties shall be deemed to have exercised reasonable care in custody and preservation of Collateral in their possession if such Collateral in accorded treatment substantially equal to that which Secured Parties accords its own property.

SECTION 22. Further Assurances. Grantor agrees that from time to time, at the expense of Grantor, Grantor will promptly execute and deliver all further instruments and documents and take all further action, that may be necessary or desirable, or that Secured Parties may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Secured Parties to exercise and enforce their rights and remedies hereunder with respect to any Collateral.

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

GRANTOR:

INTERNATIONAL SURF RESORTS, INC.
By: _____
Name:
Title:

COLLATERAL AGENT:

BROADBAND CAPITAL MANAGEMENT LLC
By: _____
Name:
Title:

EXHIBIT A

COLLATERAL DESCRIPTION

GRANTOR: **INTERNATIONAL SURF RESORTS, INC., a Nevada corporation**

COLLATERAL AGENT: **BROADBAND CAPITAL MANAGEMENT LLC**

The Collateral consists of all rights, title and interest in and to the following assets of the Grantor:

1. All accounts including, without limitation, all present and future rights of debtor to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance and all rights to payment arising out of the use of a credit or charge card and all information contained on or for use with any such card and all records and evidences of credit card transactions (the "Accounts");

2. All present and future contract rights, general intangibles (including, but not limited to, tax and duty refunds, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, securities and other investment property, letters of credit, letter of credit rights, commercial tort claims, payment intangibles, software, supporting obligations, bankers' acceptances and guaranties (including, without limitation, amounts due and payable under loans made to any of the Targets (as defined in the Purchase Agreement);

3. All present and future monies, securities, credit balances, deposits, deposit accounts and other property of debtor now or hereafter held or received by or in transit to the secured parties or their affiliates or at any other depository or other institution from or for the account of debtor, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of accounts and other collateral, including, without limitation, (i) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the collateral, (ii) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or Collateral Agent, (iii) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, accounts or other collateral, including, without limitation, returned, repossessed and reclaimed goods, and (iv) deposits by and property of account debtors or other persons securing the obligations of account debtors;

4. All of Grantor's now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located ("Inventory");

5. All of Grantor's now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located ("Equipment");

6. All of Grantor's now owned and hereafter existing or acquired securities, financial assets, securities accounts, securities entitlements and all other investment property of whatsoever kind or nature, wherever located, including, without limitation, securities issued by any subsidiary of debtor ("Investment Property");

7. All Intellectual Property, including, without limitation, the Intellectual Property listed on Schedule 1;

8. All securities (including, without limitation, the Pledged Equity);

9. All of Grantor's present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of debtor with respect to the foregoing maintained with or by any other person) ("Records"); and

10. All rights, claims and interests in any of the foregoing, and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products and proceeds of the foregoing, in any form, including, without limitation, insurance proceeds and any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

Exhibit F

FORM OF PRINCIPAL STOCKHOLDER AND PLEDGE AGREEMENT

NON-RECOURSE PRINCIPAL STOCKHOLDER STOCK PLEDGE AGREEMENT

THIS NON-RECOURSE PRINCIPAL STOCKHOLDER STOCK PLEDGE AGREEMENT is entered into as of February ___, 2011, by and between [●], as pledgor (the "**Pledgor**"), and Broadband Capital Management LLC, in its capacity as collateral agent (the "**Pledgee**") on behalf and for the benefit of the purchasers (the "**Purchasers**") signatory to that certain Securities Purchase Agreement (the "**Purchase Agreement**") with International Surf Resorts, Inc. (the "**Company**") dated the date hereof.

WHEREAS, pursuant to the Purchase Agreement, the Company agreed to sell and issue to the Purchasers, and the Purchasers agreed to purchase, secured convertible promissory notes (the "**Notes**") and certain other securities;

WHEREAS, the Pledgor is a stockholder of the Company and will derive substantial direct and indirect economic benefit from the Company receiving the proceeds of the sale of the Notes and certain other securities;

WHEREAS, it is a condition precedent to the issuance of the Notes and such other securities that the Pledgor and the Pledgee enter into this Agreement, pursuant to which, among other things, the Pledgor will pledge and grant to the Pledgee a first priority security interest in the Stock (as hereinafter defined) as security for the payment and performance in full of all of the Obligations (as hereinafter defined) by the Company; and

WHEREAS, under the terms of the Purchase Agreement, the Purchasers have appointed the Pledgee as collateral agent on their behalf.

NOW THEREFORE, in order to induce the Purchasers to enter into the Purchase Agreement, and to provide the Pledgee, on behalf of and for the benefit of the Purchasers, with additional security for the obligations of the Company under the Purchase Agreement and the Notes to be issued pursuant thereto, and in consideration thereof and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Pledgor hereby agrees with the Pledgee as follows:

1. Pledge of Stock. The Pledgor hereby pledges, assigns, grants a first priority security interest in, and delivers to the Pledgee the Stock (as hereinafter defined), to be held by the Pledgee subject to the terms and conditions hereinafter set forth, the certificates for which, accompanied by stock powers or other appropriate instruments of assignment thereof duly executed by the Pledgor, have been delivered to the Pledgee. This Agreement secures, and the Stock is security for, the payment and performance in full of all of the Obligations (as hereinafter defined). The Pledgor's Pledge and guarantee hereunder shall terminate upon the closing of the Target Transaction, as defined in the Purchase Agreement.

2. Definitions.

a. The term "**Stock**" as used herein includes the shares of capital stock described in Exhibit A attached hereto. The term "Stock" shall further include all cash or non-cash income from the shares of stock pledged hereunder, all increases therein and proceeds thereof, other than income, increases or proceeds received by the Pledgor pursuant to Section 6 hereof, and any dividend paid in respect to the Stock in the form of additional shares of stock, options to purchase stock, warrants or convertible securities (a "**Non-cash Dividend**"). The term "Stock" shall further include additional shares of the Company which may from time to time be issued or sold to the Pledgor.

b. The term "**Obligations**" as used herein means all obligations of the Company to the Purchasers, whether now existing or hereafter arising, direct or indirect, absolute or contingent, due or to become due, matured or unmatured, liquidated or unliquidated, whether arising by contract, operation of law or otherwise, whether monetary or non-monetary, including, without limitation, all obligations of the Company under the Purchase Agreement, the Notes issued by the Company to the Purchasers under or in connection with the Purchase Agreement or otherwise, and all substitutions, renewals extensions and replacements thereof, and all obligations of the Pledgor now or hereafter existing under this Agreement.

c. The term "**Event of Default**" as used herein shall mean any Event of Default as defined in the Purchase Agreement.

3. Non-Recourse Guaranty. The Pledgor hereby guarantees, on a non-recourse basis (except as expressly set forth in this Section 3), the prompt payment and performance of all of the Obligations, it being understood that Pledgee's sole and exclusive recourse against Pledgor shall be limited to the Stock. Pledgor hereby waives any right of subrogation, reimbursement, contribution or similar right against Borrower or any other guarantor in respect of the Obligations.

4. Liquidation, Recapitalization, Etc. Any sums paid upon or with respect to any of the Stock upon the liquidation or dissolution of the Company shall be paid over to the Pledgee to be held by it as security for the Obligations; and in case any distribution of capital shall be made on or in respect of any of the Stock or any property shall be distributed upon or with respect to any of the Stock pursuant to the recapitalization or reclassification of the capital of the issuer thereof or pursuant to the reorganization thereof, the property so distributed shall be delivered to the Pledgee to be held by it as security for the Obligations. All sums of money and property paid or distributed in respect of the Stock upon such a liquidation, dissolution, recapitalization or reclassification which are received by the Pledgor shall, until paid or delivered to the Pledgee, be held in trust for the Pledgee as security for the Obligations.

5. Warranty of Title. The Pledgor warrants: (a) that he has title to the Stock; (b) the Stock is subject to no pledge, lien, security interest, charge, option, restrictions or other encumbrances except the security interest created by this Agreement; (c) the Pledgor has power, authority and legal right to Pledge all of such Stock pursuant to this Agreement; and (d) execution and delivery of this Agreement and the pledging of the Stock hereunder do not contravene any law or any rule or regulation thereunder or any judgment, decree or order of any tribunal, or any agreement or instrument to which the Pledgor or any of his property is bound or constitute a default hereunder.

6. Dividends, Voting, etc., Prior to Maturity. So long as no Event of Default has occurred and is continuing, the Pledgor shall be entitled to receive all cash dividends paid in respect of the Stock, to vote the Stock and to give consents, waivers and ratifications in respect of the Stock, provided that no vote shall be cast, or consent, waiver or ratification given or action taken which would be inconsistent with or violate any provisions of this Agreement, and provided further, that upon an Event of Default, the Pledgee may cause the Stock to be transferred into its own name as collateral security. All such rights of the Pledgor to receive cash dividends shall cease in case an Event of Default shall have occurred and be continuing. All such rights of the Pledgor to vote and give consents, waivers and ratifications with respect to the Stock shall, at Pledgee's option, as evidenced by Pledgee notifying Pledgor of such election, cease in case an Event of Default shall have occurred and be continuing. In the event that a Non-cash Dividend shall be paid in respect of the Stock, Pledgor shall promptly deliver to Pledgee the certificates issued in connection with such Non-cash Dividend, if any, together with stock powers or other appropriate instruments of assignment thereof duly executed by the Pledgor.

7. Remedies. If an Event of Default shall have occurred and be continuing, the Pledgee shall thereafter have the following rights and remedies (to the extent permitted by applicable law) in addition to the rights and remedies of a secured party under the Uniform Commercial Code of Nevada, all such rights and remedies being cumulative, not exclusive, and enforceable alternative, successively or concurrently, at such time or times as the Pledgee deems expedient;

a. if the Pledgee so elects and gives notice of such election to the Pledgor, the Pledgee may vote any or all shares of the Stock and give all consents, waivers and ratifications in respect of the Stock and otherwise act with respect thereto as though it were the outright owner thereof (the Pledgor hereby irrevocably constituting and appointing the Pledgee the proxy and attorney-in-fact of the Pledgor, with full power of substitution to do so);

b. the Pledgee may demand, sue for, collect or make any compromise or settlement the Pledgee deems suitable in respect of the Stock;

c. the Pledgee may sell, resell, assign and deliver, or otherwise dispose of any or all of the Stock, for cash and/or credit and upon such terms at such place or places and at such time or times and to such persons, firms, companies or corporations as the Pledgee thinks expedient, all without demand for performance by the Pledgor or any notice or advertisement whatsoever except such as may be required by law; and

d. the Pledgee may cause all or any part of the Stock held by it to be transferred into the name or names of the Purchasers.

The Pledgee may enforce its rights hereunder without any other notice and without compliance with any other condition precedent now or hereunder imposed by statute, sale of law or otherwise (all of which are hereby expressly waived by the Pledgor, to the fullest extent permitted by law). Pledgee acknowledges that ten (10) days' notice of any public sale or of that date on or after which a private sale may be effected is reasonable notice. The Pledgee may buy any part or all of the Stock at any public sale and if any part or all of the Stock is of a type customarily sold in a recognized market or is of the type which is the subject of widely-distributed price quotations, the Pledgee may buy at private sale or may make payments thereof by any means. The Pledgee may apply the cash proceeds finally received from any sale or other disposition of the Stock to the reasonable expenses by retaking, holding, preparing for sale, selling and the like, to reasonable attorneys' fees, and all legal expenses, travel and other expenses which may be incurred by the Pledgee in attempting to collect the Obligations or to enforce this Agreement or in the prosecution of any action or proceeding related to the subject matter of this Agreement; and then the Obligations, and any surplus shall be paid to the Pledgor.

The Pledgor recognizes that the Pledgee may be unable to effect a public sale of the block by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers or to a public sale which is restricted to residents of the State of New York. The Pledgor agrees that any such private sales or such restricted public sales may be at prices and other terms less favorable to the seller than if sold at public sales and that such private sales or such restricted public sales shall not by reason thereof be deemed not to have been made in a commercially reasonable manner. The Pledgee shall be under no obligation to delay a sale of any of the Stock for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the Securities Act of 1933, as amended, even if the issuer would agree to do so.

In all events, Pledgee shall give Pledgor not less than ten (10) days' written notice of any proposed disposition of the Stock.

8. Marshalling. The Pledgee shall not be required to marshal any present of future security for (including but not limited to this Agreement and the Stock pledged hereunder), or guarantees of, the Obligations, or to resort to such security or guarantees in any particular order; and all of its rights hereunder and in respect of such security and guarantees shall be cumulative and in addition to all other rights, whoever, existing or arising. To the extent that he lawfully may, the Pledgor hereby agrees that he will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Pledgee's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or guaranteed, and to the extent that it lawfully may, the Pledgor hereby irrevocably waives the benefits of all such laws.

9. Pledgor's Obligations Not Affected. The obligations of the Pledgor hereunder shall remain in full force and effect without regard to, and shall not be impaired by: (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation, or the like of the Pledgor; (b) any exercise or nonexercise, or any waiver, by the Pledgee of any right, remedy, power or privilege under or in respect of the Obligations or any of any security therefor (including this Agreement); (c) any amendment to or modification of any instrument (other than this Agreement) securing any of the Obligations; or (d) the taking of additional security for, or any guaranty of, any of the Obligations or the release or discharge of or termination of any security or guaranty for any of the Obligations; whether or not the Pledgor shall have notice or knowledge of any of the foregoing.

10. Transfer, Etc. by Pledgor. Without the prior written consent of the Pledgee, the Pledgor will not sell, assign, transfer or otherwise dispose of, grant any option with respect to, or pledge or grant any security interest in or otherwise encumber any of the Stock or any interest therein, except for the pledge thereof provided for in this Agreement other than Permitted Assigns. As used herein, Permitted Assigns shall mean any assignee who agrees to be bound by the executes this Pledge Agreement.

11. Further Assurances. Pledgor will, from time to time, execute and deliver to Pledgee all such other and further instruments and documents and take or cause to be taken all such other and further actions as Pledgee may reasonably request in order to effect and confirm more securely in Pledgee all rights contemplated in this Agreement.

12. Pledgee's Exoneration. Under no circumstances shall the Pledgee be deemed to assume any responsibility for or obligation or duty with respect to the Stock or any matter or proceedings arising out of or relating thereto, other than to exercise reasonable care in the physical custody of the Stock. The Pledgee shall not be required to take any action of any kind to collect, preserve or protect its or the Pledgor's rights in the Stock or against other parties thereto, other than to exercise reasonable care in the physical custody of the Stock.

13. No Waiver, Etc. No act, failure or delay by the Pledgee shall constitute a waiver of its rights and remedies hereunder or otherwise. No single or partial waiver by the Pledgee of any default or right or remedy which it may have shall operate as a waiver of any other default, right or remedy or of the same default, right or remedy on a future occasion. The Pledgor hereby waives presentment, notice of dishonor and protest of all instruments, included in or evidence any of the Obligations, and any and all other notices and demands whatsoever (except as expressly provided herein).

14. Notice, Etc. All communications herein provided shall be in writing and shall be sufficient if sent by United States mail, registered or certified, postage prepaid, delivered by messenger, overnight delivery service or telecopier, addressed as follows:

If to the Pledgor: Principal Stockholder signatory hereto
c/o International Surf Resorts, Inc.
1097 Country Coach Drive, Suite 705
Henderson, Nevada 89002
Tel: (888) 689-0930
Fax: (949) 706-1475

If to the Pledgee: Broadband Capital Management LLC
712 Fifth Avenue, 22nd floor
New York N.Y. 10019
Attention of Philip Wagenheim
Tel: (212) 277-5300
Fax: (212) 702-9830

or to such other address as the party to receive any such communication or notice may have designated by written notice to the other party.

Any notice given pursuant to this Section shall be deemed to have been given and received when actually delivered, upon receipt of electronic confirmation if by telecopier, one business day after dispatch by recognized overnight deliver service, or three business days after mailing by certified or registered mail with proper postage affixed and return receipt requested.

15. Termination. This Agreement shall terminate at such time as all of the Obligations shall have been paid in full, and upon such termination, the Pledgor shall be entitled to the return of such Stock in the possession or control of the Pledgee as has not theretofore been disposed of pursuant to the provisions hereof and as to which the Pledgee has not received notice of a junior pledge, together with any moneys and other property of the Pledgor at the time held by the Pledgee hereunder.

16. Miscellaneous Provisions. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated except by a written instrument expressly referring to this Agreement and to the provisions so modified or limited, and executed by the party to be charged. This Agreement and all obligations of the Pledgor shall be binding upon the heirs, executors, successors and assigns of the Pledgor, and shall, together with the rights and remedies of the Pledgee hereunder, inure to the benefit of the Pledgee, its successors and assigns. This Agreement and the obligations of the Pledgor hereunder shall be governed by and construed in accordance with the laws of the State of New York. The descriptive section headings have been inserted for convenience of reference only and do not define or limit the provisions hereof. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall be in no way affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein.

Pledgor acknowledges receipt of a copy of this Agreement. To the extent permitted by applicable law, the Pledgor hereby waives trial by jury in any proceeding brought for the interpretation or enforcement of this Agreement or for a determination of the rights of the parties hereunder.

IN WITNESS WHEREOF, the Pledgor and the Pledgee have caused this agreement to be duly executed as of the date first above written.

“PLEDGOR”

Print name: _____

“PLEDGEE”

BROADBAND CAPITAL MANAGEMENT LLC

By: _____
Name:
Title:

Exhibit G

FORM OF UCC FINANCING STATEMENTS

Exhibit H

FORM OF LEGAL OPINION OF THE COMPANY'S COUNSEL

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - NET
AIR COMMERCIAL REAL ESTATE ASSOCIATION

1 **Basic Provisions ("Basic Provisions").**

1.1 **Parties:** This Lease ("Lease"), dated for reference purposes only 5/22/06 is made by and between Empire Business Park ("Lessor") and BioZone Laboratories, Inc. ("Lessee"), (collectively the "Parties", or individually a "Party").

1.2(a) **Premises:** That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 701 Willow Pass Rd., Unit 8, located in the City of Pittsburg, County of Contra Costa, State of CA, with zip code 94565, as outlined on Exhibit A attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises): an approximately Thirty Six Thousand and Six Hundred Fourty (±36,640 sf) Square Foot portion of a large Multi-tenant Industrial Building.
In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the any utility raceways of the building containing the Premises ("Building") and to the common Areas (as defined in Paragraph 2.7 below), but shall not have any rights to the roof or exterior walls of the Building or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project." (See also Paragraph 2)

1.2(b) **Parking:** Thirty-six (36) unreserved vehicle parking spaces. (See also Paragraph 2.6)

1.3 **Term:** Three (3) years and Zero (0) months ("Original Term") commencing on completion of Tenant Improvements and Tenant receiving occupancy permits, but not to exceed August 1, ~~2006~~ September 15, 2006 or sooner if the construction is completed sooner ("Commencement Date") and ending Thirty-six months (36) later. ("Expiration Date"). (See also Paragraph 3)

1.4 **Early Possession Access:** on lease execution ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 **Base Rent:** $ 14,656.00 per month ("Base Rent"), payable on the First day of each month commencing on completion of Tenant Improvements and Tenant receiving occupancy permits, but not to exceed August 1, 2006. (See also Paragraph 4)
☑ If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 **Lessee's Share of Common Area Operating Expenses:** 86.6 hundredths of a percent (.0866%) ("Lessee's Share"). Lessee's Share has been calculated by dividing the approximate square footage of the Premises by the approximate square footage of the Project. In the event that the size of the Premises and/or the Project are modified during the term of this Lease, Lessor shall recalculate Lessee's Share to reflect such modification.

1.7 **Base Rent and Other Monies Paid Upon Execution:**
(a) **Base Rent:** $14,656.00 for the period First Month.
(b) **Common Area Operating Expenses:** $2,198.40 for the period First Month.
(c) **Security Deposit:** $16,854.40 ("Security Deposit"). (See also Paragraph 5)
(d) **Other:** $ _____ for _____.
(e) **Total Due Upon Execution of this Lease:** $33,708.80.

1.8 **Agreed Use:** Administrative sales offices manufacturing and packaging of cosmetics, dietary supplements, medical products and related uses.

1.9 **Insuring Party.** Lessor is the "Insuring Party". (See also Paragraph 8) (See also Paragraph 6)

1.10 **Real Estate Brokers:** (See also Paragraph 15)
(a) **Representation:** The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):
☑ Cushman & Wakefield represents Lessor exclusively ("Lessor's Broker");
☑ Grubb & Ellis represents Lessee exclusively ("Lessee's Broker"); or
☐ _____ represents both Lessor and Lessee ("Dual Agency").
(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent for the brokerage services rendered by the Brokers).

1.11 **Guarantor.** The obligations of the Lessee under this Lease are to be guaranteed by _____ ("Guarantor"). (See also Paragraph 37)

1.12 **Attachments.** Attached hereto are the following, all of which constitute a part of this Lease:
☑ an Addendum consisting of Paragraphs 50 through 54;
☑ a site plan depicting the Premises;
☐ a site plan depicting the Project;
☐ a current set of the Rules and Regulations for the Project;

☐ a current set of the Rules and Regulations adopted by the owners' association;

☐ a Work Letter,

☐ other (specify): _____

2. **Premises.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is an approximation which the Parties agree is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less. **NOTE: Lessee is advised to verify the actual size prior to executing this Lease.**

2.2 **Condition.** Lessor shall deliver that portion of the Premises contained within the Building ("Unit") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, sump pumps, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on said date, that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects, and that the Unit does not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls - see Paragraph 7).

2.3 **Compliance.** Lessor warrants that to the best of its knowledge the improvements on the Premises and the Common Areas comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances in effect on the Start Date ("Applicable Requirements"). Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 49), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the Applicable Requirements and especially the zoning are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for the portion of such costs reasonably attributable to the Premises pursuant to the formula set out in Paragraph 7.1(d); provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not have any right to terminate this Lease.

2.4 **Acknowledgements.** Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 **Lessee as Prior Owner/Occupant.** The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6 **Vehicle Parking.** Lessee shall be entitled to use the number of parking spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than

Premises may be parked in the Common Area without the prior written permission of Lessor. In addition:

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) Lessee shall not service or store any vehicles in the Common Areas.

(c) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.7 **Common Areas - Definition.** The term **"Common Areas"** is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 **Common Areas - Lessee's Rights.** Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 **Common Areas - Rules and Regulations.** Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations **("Rules and Regulations")** for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and shall use its best efforts to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10 **Common Areas - Changes.** Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. **Term.**

3.1 **Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 **Early Possession.** If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 **Delay In Possession.** Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of the delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 **Lessee Compliance.** Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. **Rent.**

4.1 **Rent Defined.** All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent **("Rent")**.

4.2 **Common Area Operating Expenses.** Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) **"Common Area Operating Expenses"** are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition , and if necessary the

replacement, or the following:

(aa) The Common Areas and Common Area Improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs, and roof drainage systems.

(bb) Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) Trash disposal, pest control services, property management, security services, owners' association dues and fees, the cost to repaint the exterior of any structures and the cost of any environmental inspections.

(iv) Reserves set aside for maintenance, repair and/or replacement of Common Area improvements and equipment.

(v) Real Property Taxes (as defined in Paragraph 10).

(vi) The cost of the premiums for the insurance maintained by Lessor pursuant to Paragraph 8.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Auditors', accountants' and attorneys' fees and costs related to the operation, maintenance, repair and replacement of the Project.

(ix) The cost of any capital improvement to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such capital improvement over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such capital improvement in any given month. Structural Capital Improvements which will be allocated over a 25 year period.

(x) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses is payable monthly on the same day as the Base Rent is due hereunder. The amount of such payments shall be based on Lessor's estimate of the annual Common Area Operating Expenses. Within 60 days after written request (but not more than once each year) Lessor shall deliver to Lessee a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments during such year exceed Lessee's Share, Lessor shall credit the amount of such over-payment against Lessee's future payments. If Lessee's payments during such year were less than Lessee's Share, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

(e) Common Area Operating Expenses shall not include any expenses paid by any tenant directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or insurance proceeds.

4.3 **Payment.** Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25 in addition to any Late Charge and Lessor, at its option, may require all future Rent be paid by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent and Common Area Operating Expenses, and any remaining amount to any other outstanding charges or costs.

5. **Security Deposit.** Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 14 days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within 30 days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. **Use.**

6.1 **Use.** Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the Building or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Project. If Lessor elects to withhold consent, Lessor shall within 7 days

...request, give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2 **Hazardous Substances.**

(a) **Reportable Uses Require Consent.** The term "**Hazardous Substance**" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. **Lessee** shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of **Lessor** and timely compliance (at **Lessee's** expense) with all Applicable Requirements. "**Reportable Use**" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, **Lessee** may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose **Lessor** to any liability therefor. In addition, **Lessor** may condition its consent to any Reportable Use upon receiving such additional assurances as **Lessor** reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before **Lease** expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) **Duty to Inform Lessor.** If **Lessee** knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by **Lessor**, **Lessee** shall immediately give written notice of such fact to **Lessor**, and provide **Lessor** with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** **Lessee** shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at **Lessee's** expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by **Lessee**, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this **Lease**, by or for **Lessee**, or any third party.

(d) **Lessee Indemnification.** **Lessee** shall indemnify, defend and hold **Lessor**, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for **Lessee**, or any third party (provided, however, that **Lessee** shall have no liability under this **Lease** with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project not caused or contributed to by **Lessee**). **Lessee's** obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by **Lessee**, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this **Lease**. No termination, cancellation or release agreement entered into by **Lessor** and **Lessee** shall release **Lessee** from its obligations under this **Lease** with respect to Hazardous Substances, unless specifically so agreed by **Lessor** in writing at the time of such agreement.

(e) **Lessor Indemnification.** **Lessor** and its successors and assigns shall indemnify, defend, reimburse and hold **Lessee**, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which are suffered as a direct result of Hazardous Substances on the Premises prior to **Lessee** taking possession or which are caused by the gross negligence or willful misconduct of **Lessor**, its agents or employees. **Lessor's** obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this **Lease**.

(f) **Investigations and Remediations.** **Lessor** shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the **Lessee** taking possession, unless such remediation measure is required as a result of **Lessee's** use (including "**Alterations**", as defined in paragraph 7.3(a) below) of the Premises, in which event **Lessee** shall be responsible for such payment. **Lessee** shall cooperate fully in any such activities at the request of **Lessor**, including allowing **Lessor** and **Lessor's** agents to have reasonable access to the Premises at reasonable times in order to carry out **Lessor's** investigative and remedial responsibilities.

(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this **Lease**, unless **Lessee** is legally responsible therefor (in which case **Lessee** shall make the investigation and remediation thereof required by the Applicable Requirements and this **Lease** shall continue in full force and effect, but subject to **Lessor's** rights under Paragraph 6.2(d) and Paragraph 13), **Lessor** may, at **Lessor's** option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at **Lessor's** expense, in which event this **Lease** shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or $100,000, whichever is greater, give written notice to **Lessee**, within 30 days after receipt by **Lessor** of knowledge of the occurrence of such Hazardous Substance Condition, of **Lessor's** desire to terminate this **Lease** as of the date 60 days following the date of such notice. In the event **Lessor** elects to give a termination notice, **Lessee** may, within 10 days thereafter, give written notice to **Lessor** of **Lessee's** commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or $100,000, whichever is greater. **Lessee** shall provide **Lessor** with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this **Lease** shall continue in full force and effect, and **Lessor** shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If **Lessee** does not give such notice and provide the required funds or assurance thereof within the time provided, this **Lease** shall terminate as of the date specified in **Lessor's** notice of termination.

6.3 **Lessee's Compliance with Applicable Requirements.** Except as otherwise provided in this **Lease**, **Lessee** shall, at **Lessee's** sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of **Lessor's** engineers and/or consultants which relate in any manner to such Requirements, without regard to whether said Requirements are now in effect or become effective after the Start Date. **Lessee** shall, within 10 days after receipt of **Lessor's** written request, provide **Lessor** with copies of all permits and other documents, and other information evidencing **Lessee's** compliance with any Applicable Requirements specified by **Lessor**, and shall immediately upon receipt, notify **Lessor** in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of **Lessee** or the Premises to comply with any Applicable Requirements. Likewise, **Lessee** shall immediately give written notice to **Lessor** of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold, or (ii) any mustiness or other odors that might indicate

6.4 **Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance condition (see Paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, **Lessee** shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of written request therefor.

7. **Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler and pressure vessels, (iii) clarifiers, and (iv) any other equipment, if reasonably required by Lessor. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) **Failure to Perform.** If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 115% of the cost thereof.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (ie. 1/144th of the cost per month). Lessee shall pay interest on the unamortized balance but may prepay its obligation at any time.

7.2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 **Utility Installations; Trade Fixtures; Alterations.**

(a) **Definitions.** The term **"Utility Installations"** refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term **"Trade Fixtures"** shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term **"Alterations"** shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. **"Lessee Owned Alterations and/or Utility Installations"** are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, will not affect the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialman's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount

[illegible] liens, costs of defense, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 **Ownership; Removal; Surrender; and Restoration.**

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. **Insurance; Indemnity.**

8.1 **Payment of Premiums.** The cost of the premiums for the insurance policies required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), shall be a Common Area Operating Expense. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.

8.2 **Liability Insurance.**

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an annual aggregate of not less than $2,000,000. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement and coverage shall also be extended to include damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor.** Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 **Property Insurance - Building, Improvements and Rental Value.**

(a) **Building and Improvements.** Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) **Rental Value.** Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value Insurance"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) **Adjacent Premises.** Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) **Lessee's Improvements.** Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 **Lessee's Property; Business Interruption Insurance.**

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of

where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A-, VI, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 **Waiver of Subrogation.** Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 **Indemnity.** Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 **Exemption of Lessor and its Agents from Liability.** Notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.

8.9 **Failure to Provide Insurance.** Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessee does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or $100, whichever is greater. The parties agree that such increase in Base Rent represents a fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.

9. Damage or Destruction.

9.1 **Definitions.**

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. Notwithstanding the foregoing, Premises Partial Damage shall not include damage to windows, doors, and/or other similar items which Lessee has the responsibility to repair or replace pursuant to the provisions of Paragraph 7.1.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **"Hazardous Substance Condition"** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises which requires repair, remediation, or restoration.

9.2 **Partial Damage - Insured Loss.** If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and

force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage - Uninsured Loss.** If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 **Total Destruction.** Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 **Damage Near End of Term.** If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 **Abatement of Rent; Lessee's Remedies.**

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 **Termination; Advance Payments.** Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 **Waive Statutes.** Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. **Real Property Taxes.**

10.1 **Definition.** As used herein, the term "**Real Property Taxes**" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project, (ii) a change in the improvements thereon, and/or (iii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.2 **Payment of Taxes.** Except as otherwise provided in Paragraph 10.3, Lessor shall pay the Real Property Taxes applicable to the Project, and said payments shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.3 **Additional Improvements.** Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

10.4 **Joint Assessment.** If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 **Personal Property Taxes.** Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned

Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities and Services.** Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of the trash receptacle and/or an increase in the number of times per month that it is emptied, then Lessor may increase Lessee's Base Rent by an amount equal to such increased costs. There shall be no abatement of Rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. **Assignment and Subletting.**

12.1 **Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "**assign or assignment**") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "**Net Worth of Lessee**" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a *de minimus* portion of the Premises, ie. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

12.2 **Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 **Additional Terms and Conditions Applicable to Subletting.** The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. **Default; Breach; Remedies.**

13.1 **Default; Breach.** A "**Default**" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "**Breach**" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.

(c) The commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee.

(d) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41, (viii) material data safety sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "**debtor**" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 **Remedies.** If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of the Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture.** Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 10% of each such overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 **Interest.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 **Breach by Lessor.**

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. **Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of Lessee's Reserved Parking Spaces, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. **Brokerage Fees.**

15.1 **Additional Commission.** In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires from Lessor any rights to the Premises or other premises owned by Lessor and located within the Project, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule of the Brokers in effect at the time of the execution of this Lease.

15.2 **Assumption of Obligations.** Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.

15.3 **Representations and Indemnities of Broker Relationships.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. **Estoppel Certificates.**

(a) Each Party (as "**Responding Party**") shall within 10 days after written notice from the other Party (the "**Requesting**

Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Definition of Lessor.** The term **"Lessor"** as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Days.** Unless otherwise specifically indicated to the contrary, the word **"days"** as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, or its partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or wilful misconduct of such Broker.

23. **Notices.**

23.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. **Waivers.** No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. **Disclosures Regarding The Nature of a Real Estate Agency Relationship.**

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) *Lessor's Agent.* A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: (a) Diligent exercise of reasonable skills and care in performance of the agent's duties. (b) A duty of honest and fair dealing and good faith. (c) A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) *Lessee's Agent.* An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: (a) Diligent exercise of reasonable skills and care in performance of the agent's duties. (b) A duty of honest and

fair dealing and good faith. (c) A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(iii) *Agent Representing Both Lessor and Lessee.* A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: (a) A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. (b) Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any Default or Breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or wilful misconduct of such Broker.

(c) Buyer and Seller agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.

26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30 **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor.

30.3 **Non-Disturbance.** With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 **Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. **Attorneys' Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach ($200 is a reasonable minimum per occurrence for such services and consultation)

32. **Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there

is no material adverse effect on Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

33. **Auctions.** Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. **Signs.** Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. **Termination; Merger.** Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. **Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. **Guarantor.**

37.1 **Execution.** The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association.

37.2 **Default.** It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. **Options.** If Lessee is granted an option, as defined below, then the following provisions shall apply.

39.1 **Definition. "Option"** shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 **Multiple Options.** In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof),or (ii) if Lessee commits a Breach of this Lease.

40. **Security Measures.** Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

41. **Reservations.** Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

43. **Authority; Multiple Parties; Execution.**

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.

(b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all

of which together shall constitute one and the same instrument.

44. **Conflict.** Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

45. **Offer.** Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. **Waiver of Jury Trial.** **THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.**

48. **Mediation and Arbitration of Disputes.** An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease ☐ is ☑ is not attached to this Lease.

49. **Americans with Disabilities Act.** Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. **SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.**
2. **RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.**

WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Pittsburg CA	**Executed at:** Pittsburg, CA
On: 6-16-06	**On:** 6/16/06
By LESSOR: Empire Business Park	**By LESSEE:** BioZone Laboratories, Inc.
By:	**By:**
Name Printed: Stan Davis	**Name Printed:** Dan Fisher
Title: Property Mngr.	**Title:** President
By:	**By:** Dan Fisher
Name Printed:	**Name Printed:**
Title:	**Title:**
Address: 701 Willow Pass Rd. Pittsburg, CA 94565	**Address:** 580 Garcia Ave. Pittsburg, CA 94565
Telephone: (925) 432-4712	**Telephone:** (925)
Facsimile: (___)	**Facsimile:** (___)
Federal ID No.	**Federal ID No.**
BROKER:	**BROKER:**
Attn:	**Attn:**
Title:	**Title:**
Address:	**Address:**
Telephone: (___)	**Telephone:** (___)
Facsimile: (___)	**Facsimile:** (___)
Email:	**Email:**
Federal ID No.	**Federal ID No.**

These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AIR COMMERCIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, CA 90017. (213) 687-8777.

ADDENDUM

Date: 5/22/06

By and Between (Lessor) Davis and Associates
(Lessee) BioZone Laboratories, Inc.

Address of Premises: 701 Willow Pass Rd., Unit B
Pittsburg, CA 94565

50. **Rental Rate:** Rental Rate shall increase annually on the anniversary of the commencement date. Increases will be based on the San Francisco Bay Area C.P.I.. Increases will be a minimum of three percent (3%) and a maximum of six percent (6%).

51. **Landlord Improvements:** Per Exhibit A

52. **Tenant Improvements:** Any compressor shall be enclosed in a sound insulated closet.

53. **Option to Purchase:** Tenant shall have an option to purchase subject premises. Sale price shall be at a capitalization rate of 7.5% based on current NNN rent. Brokers shall be paid a commission of five (5%) percent of the total purchase price less lease commission fees paid. Said commission shall be split 50/50 between Buyer's and Seller's brokers.

54. **Option to Extend:** Tenant has two (2) options to extend Lease for three (3) years each at same terms and conditions, with six months prior written notice.

INITIALS

INITIALS

15 Warren Street, Suite 25
Hackensack, NJ 07601
(201) 342-342-7753
Fax: (201) 342-7598
E-mail: paritz@paritz.com

Paritz & Company, P.A.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
BioZone Pharmaceuticals, Inc.
550 Sylvan Avenue, Suite 101
Englewood Cliffs, NJ 07632

Gentlemen:

We consent to the use in this Amendment No. 3 to the Registration Statement on Form S-1 of our report dated April 12, 2012, relating to the consolidated financial statements of BioZone Pharmaceuticals, Inc. for the year ended December 31, 2011 and 2010, which appears in such registration statement.

We also consent to the reference to us under the heading “Experts” in such Registration Statement.

Paritz & Company, P.A.
Hackensack, New Jersey
September 28, 2012

September 28, 2012

United States Securities and Exchange Commission
Division of Corporation Finance
100 F Street, NE
Washington, DC 20549

Attention: Jennifer Riegel
Jeffrey P. Riedler

Re: Biozone Pharmaceuticals, Inc.
Amendment No. 2 to Registration Statement on Form S-1
Filed July 2, 2012
File No. 333-176951

Ladies and Gentlemen:

The following responses address the comments of the Staff (the "Staff") as set forth in its letter dated July 25, 2012 (the "Comment Letter") relating to the Registration Statement on Form S-1 (the "Registration Statement") of Biozone Pharmaceuticals, Inc. ("Biozone" or the "Company") filed on September 21, 2011 and amended on December 19, 2011 and July 2, 2012. The Company is simultaneously filing Amendment No.3 to the Registration Statement (the "Amendment"). On behalf of the Company, we respond as set forth below.

The numbers of the responses in this letter correspond to the numbers of the Staff's comments as set forth in the Comment Letter.

Amendment No. 2 to Registration Statement on Form S-1

General

1. Please note that we will be providing comments to you on your confidential treatment request under separate cover.

Response:

The Company notes the Commission's Comment #1.

Risk Factors, page 3

"Confidentiality agreements with employees and others may not ...," page 5

2. Please refer to your response to Comment 3. Although you state in your response letter that you have filed all confidentiality agreements and intellectual property assignment agreements, it does not appear that these agreements have been filed as exhibits to your registration statement. Please file these exhibits with your next amendment or advise us as to the location of each agreement.

Response:

The Company has not caused the execution of any "stand-alone" confidentiality agreements. Our Employee Handbook, a copy of which is signed by each employee, provides that employees shall not disclose any of our trade secrets, directly or indirectly, or use them in any way, either during the term of their employment or at any time thereafter, except as required in the course of employment with the Company. In addition, our consulting agreements with external advisors provide that the consultant may not disclose confidential information. We have not filed the Employee Handbook or any of our consulting agreements as exhibits because we do not view them as material agreements. The Company has entered into license agreements with BetaZone Pharmaceuticals, LLC, OPKO Pharmaceuticals, LLC and Dr. Nian Wu pursuant to which the Company has granted certain rights to its intellectual property to these counterparties. The license agreements have been incorporated by reference as exhibits to the Registration Statement. The Company has not assigned any of its intellectual property to third parties.

"We cannot assure you that our common stock will become listed, page 6

3. Please briefly describe the listing standards or corporate governance standards of the NYSE Amex Securities or Nasdaq exchanges that you currently fail to meet.

Response:

The Company has revised the risk factor to describe the corporate governance standards of NYSE MKT LLC (formerly NYSE Amex Securities) that it fails to meet, including director independence standards and the lack of independent audit and compensation committees of its Board of Directors.

Management's Discussion and Analysis and Results of Operations, page 8

Critical Accounting Policies and Estimates, page 11

Revenue Recognition, page 12

4. You state that license revenue is recorded when reported. Please clarify in the filing your accounting policy and what guidance you used for your accounting treatment. In this respect we note that you entered a license agreement with OKRO in February 2012. If material, please revise your accounting policy in your notes to the financial statements to clarify the accounting treatment for the licensing agreement.

Response:

The Company has expanded its disclosure in this section to describe its accounting treatment of license revenue. The entry into the license agreement with OPKO did not result in a current accounting recognition event and future licensing revenue if any is speculative.

Company Overview, page 13

5. You state that in December 2011 you transferred your 55% ownership in ISR de Mexico, S. R.L. de C. V., a Mexican corporation that was owned by the Company during the period prior to February 22, 2011, in return for and cancellation of 13,948,001 shares of the Company's common stock. Please tell us how this was accounted for in your financial statements and provide additional disclosure as appropriate.

Response:

The Company intended that simultaneous with the acquisition of the assets of Aero, the 55% ownership in ISR de Mexico, S. R.L. de C. V., would be transferred to the former shareholders of the Company in return for and cancellation of 13,948,001 shares of the Company's common stock. The actual transfer was delayed because of the failure to locate missing stock certificates, which were located subsequently. The Company accounted for the transfer of the 55% ownership in ISR de Mexico, S. R.L. de C. V in exchange for the shares in accordance with the parties' intent and treated the exchange as having occurred simultaneously with the acquisition. The Company has expanded its disclosure in this section to describe its accounting treatment of the exchange.

Properties, page 14

6. Please refer to your response to Comment 3. Please file the lease agreement related to the Willow Pass Road facility as an exhibit to your registration statement, or provide an analysis as to why this lease agreement is not material to your business.

Response:

The Company has filed the lease agreement related to the Willow Pass Road facility as an exhibit to the Registration Statement.

Business, page 16

Overview, page 16

7. On page 17, you indicate that you provided responses to the FDA regarding the agency's observations, and provided commitments and timelines for the remediation of the conditions cited by the FDA. Please disclose when you expect to complete the remediation of the conditions cited by the FDA.

Response:

The Company expects to complete the remediation of the conditions cited by the FDA by December 2012 and has revised the Registration Statement to disclose the same.

Other Business Activities — Raw Material Sales and Technology Licensing, page 17

8. Please expand your discussion of the limited license agreement and the distribution agreement each with OPKO Pharmaceuticals to disclose all material terms, including each parties' material obligations, any financial provisions, the term of the agreement, and any termination provisions.

Response:

The Company has expanded its disclosure in this section to further describe all material items related to the limited license agreement. The Distribution Agreement was effectively terminated as a result of the Separation Agreement executed between Nian Wu and the Company which, among other things, terminated the License Agreement between Mr. Wu and the Company, which provided for the distribution rights granted to OPKO. The Company has revised the disclosure accordingly.

Customers and Marketing, page 21

9. We are re-issuing prior comment 6. Please expand your disclosure to identify your largest contract manufacturing customer that accounts for a material amount of your sales.

Response:

The identity of the Company's largest contract manufacturing customer is subject to the confidentiality treatment request, to be approved by the Staff.

Executive Officers and Directors, page 23

Employment Agreements, page 24

10. You disclose on page 24 that you have paid Mr. Fisher $5,000 towards the amounts due him under his employment agreement. Please disclose the remaining balance due to Mr. Fisher under his employment agreement.

Response:

The Company has paid Mr. Fisher a total of $35,000 through the date of the Amendment. The remaining balance due is $16,333. The Company has expanded its disclosure in this section to describe the remaining balance due to Mr. Fisher under his employment agreement.

11. We note your Form 8-K/A filed February 8, 2012 which attaches as an exhibit the resignation letter from Dan Fisher to your executive officers. It appears that Mr. Fisher included two attachments with his letter of resignation; however, Attachment A and Attachment B are not filed as exhibits to the Form 8-K/A. Pursuant to Item 5.02(a)(2) and (a)(3) of Form 8-K, please promptly amend your Form 8-K/A to file a complete copy of the letter from Mr. Fisher, including Attachments A and B thereto.

Response:

The Company filed an amended Form 8-K/A containing these exhibits on July 31, 2012.

Directors' and Officers' Liability Insurance, page 25

12. We note that you have filed the Director and Officer Indemnification Agreement with Mr. Preto-Novo as Exhibit 1 0. 10 to your registration statement. If you have entered into indemnification agreements with any of your other directors or officers, please file these agreements as exhibits to your registration statement, and amend your disclosure here and elsewhere in your filing to indicate that you have entered into indemnification agreements with the named respective directors and officers.

Response:

To date, the Company has only entered into an indemnification agreement with Mr. Prego-Novo and has yet to enter into indemnification agreements with Mr. Keller or Mr. Maza.

Certain Relationships and Related Transactions, page 26

13. It appears that the securities purchase agreement you entered into with Opko Health on February 24, 2012 may be incorporated as Exhibit 10.34 to your registration statement despite the fact that the buyer is not identified in that agreement or in the related Form 8K. Please confirm that this is the correct agreement. Alternatively, please file a copy of this agreement.

Response:

It is confirmed that the securities purchase agreement between the Company and Opko Health on February 24, 2012 is incorporated as Exhibit 10.34 to the registration statement.

Biozone Pharmaceuticals, Inc. Consolidated Balance Sheets, page F-2

14. We reviewed your response to comment 11. You reference a reconciliation provided in your prior amendment which presents pro forma information for Biozone Pharmaceuticals as of December 31, 2010. Your historical financial statement for Biozone Pharmaceuticals, Inc. as of December 31, 2010 does appear to agree to the individual balances of Biozone Labs, Equalan Pharma and Equachem, adjusted for intercompany transactions. The total assets balance appears to include $89,373 in assets from Biozone which should not be included until after the reverse merger, the current liabilities does not agree to the sum of Biozone, Equalan Pharma and Equachem adjusted for intercompany transactions and the long term debt does not agree to the total long term debt for Biozone Laboratories. Please confirm that the December 31, 2010 financial information does not include the effect of the reverse merger as that did not occur until June 30, 2011 or revise your filing accordingly.

Response:

The Balance sheet at December 31, 2010 should not include the assets of BioZone Pharmaceuticals prior to the reverse merger. We have revised our filing to exclude such financial information.

15. As the consolidated financial statements comprise a C Corp and LLCs, please tell us why you believe the equity section of the historical balance sheet reflects the historical financial statements of the entities that have been consolidated.

Response:

All of the LLC interests were exchanged for shares of BioZone Pharmaceuticals in the transaction. We have retroactively reflected the exchange of shares in the equity section of the historical balance sheet of the BioZone Labs group upon consolidation. The effect of this retroactive application had no effect on total stockholders' deficiency.

Note 1- Business, page F-5

16. We note your response to prior comment 12. Please provide us your analysis for determining the accounting acquirer under paragraph a-e of paragraph 805-10-5512. 805-10-55-12a states that the acquirer usually is the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. Your response states that there was change in voting rights just prior to the acquisition. Please clarify in the filing what the change in voting rights was and tell us how this supports your determination that BioZone Lab Groups was the accounting acquirer.

Response:

We evaluated all relevant facts and circumstances to determine the accounting acquirer under paragraphs of 805-10-55-12(a-e) and 805-10-55-13 and 14, as follows:

The voting rights after the transaction was completed – Immediately after the transaction was completed, no shareholder individually owned more than 20% of the total shares issued and outstanding. The largest shareholder after the transaction was ISR Investments, the majority shareholder of International Surf, which relinquished its shares after the transaction pursuant to the intent of the parties at the time of the transaction. After adjusting the outstanding shares for the return of ISR shares, no shareholder individually owned more than 15% of the adjusted total shares issued and outstanding.

> ASC 805-10-55-12 paragraph a states in part, "The relative voting rights in the combined entity after the business combination - The acquirer usually is the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the whose owners as a group retain or receive the largest portion of the voting rights in the combined entity."
>
> ASC 805-10-55-12 paragraph b states in part, "The existence of a large minority voting interest in the combined entity if no other owner or organized group of owners has a significant voting interest - The acquirer usually is the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity."

Immediately after the transaction, the former shareholders of BioZone Laboratories Inc. owned a total of 21,000,000 shares, or 31% of the total shares issued and outstanding and 38% of the adjusted (as described above) issued and outstanding shares and no other shareholder owned a significant amount of the total outstanding shares (other than ISR Investments). Accordingly, we determined that the factors described in ASC 805-10-55-12 a and b support the conclusion that the BioZone Labs Group is the accounting acquirer because it's former shareholders received the largest portion of the voting rights in the combined entity and held the largest minority voting interest in the combined entity.

The composition of the Board and of management after the transaction – Immediately after the transaction, the Board of Directors of the combined entity consisted of three members, including Brian Keller and Daniel Fisher, who were board members and controlling shareholders of the BioZone Labs Group. In addition, Mr. Keller and Mr. Fisher were appointed to senior management positions in the Company and were fully in charge of all business operations.

> ASC 805-10-55-12 paragraph c states in part, "The composition of the governing body of the combined entity – The acquirer usually is the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.

We considered the initial composition of the board and the fact that the combined entity's by-laws provide that the terms of the directors expire at the next annual shareholder's meeting following their election, indicating that the composition of the board is not subject to change within a short period of time after the acquisition date. Accordingly, we determined that the factor described in ASC 805-10-55-12 paragraph c supports the conclusion that the BioZone Labs Group is the accounting acquirer because its former shareholders composed a majority of the governing body of the combined entity.

> ASC 805-10-55-12 paragraph d states in part, "The composition of the senior management of the combined entity – The acquirer usually is the combining entity whose former management dominates the management of the combined entity."

We considered the initial composition of the management team of the combined entity, which consisted of: Brian Keller (President and Chief Scientific Officer), Daniel Fisher (Executive Vice President); and Elliot Maza (CFO). Together, Brian Keller and Daniel Fisher controlled the BioZone Labs Group prior to the transaction. Accordingly, we determined that the factor described in ASC 805-10-55-12 paragraph d supports the conclusion that the BioZone Labs Group is the accounting acquirer because its former shareholders composed a majority of the management team and held operational control of the combined entity.

The relative size of the parties involved: We analyzed the size of all the parties involved in the transaction. BioZone Laboratories Inc. constituted approximately 98% of total revenues and 87% of total assets of the pro forma combined financial statements of the entities. BioZone Pharmaceuticals (f/k/a International Surf, the legal survivor) had minimal assets and no revenues. Aero Pharmaceuticals had $331,000 in revenues and less than $1million in total assets as of and for the year ended December 31, 2010. Accordingly, we determined that this factor supports the conclusion that the BioZone Labs Group should be considered the acquirer because it is the combining entity whose relative size is significantly larger than the other combining entity or entities.

The reason for entering into the transaction – The main reason for entering into the transaction was for BioZone Laboratories, Inc. and related companies to continue its operations and business as a publicly traded company to provide access to growth capital not readily obtainable from private equity sources. The principals involved in the transaction, including the former shareholders of the BioZone Labs Group, determined that the most inexpensive and efficient method to achieve this result was to merge with an existing public shell company.

17. We note your response to prior comment 15. Given that there was no legally binding agreement to ensure the group of shareholders acts in concert and no individual shareholder or immediate family members holds greater than 50% of ownership interests, please tell us why you still believe that BioZone Lab Group, including Beta Zone, met the criteria for common control for accounting purposes in accordance with the guidance of EITF 02-5.

Response:

We evaluated all relevant facts and circumstances to determine that the BioZone Lab Group, including Beta Zone, met the criteria for common control for accounting purposes as follows:

1. The transaction was conditional upon the simultaneous acquisition of each entity.

2. The ownership percentages of the former BioZone Lab Group shareholders in each of BioZone Laboratories Inc., Equalan, Equachem, and BetaZone were identical and though no formal agreement existed to vote the entities' shares in concert, the intent of the parties was that the BioZone Labs Group shareholders would act as a group.

3. The significant number and dollar amount of inter-company transactions among the BioZone Labs Group entities and the common management of each entity caused each entity to be reliant upon each other and required the shareholders to act in concert with respect to each entity.

Note 7. Convertible Notes Payable, page F-9

18. Refer to your response to comment 18. Please confirm whether the convertible instruments issued in 2012 also were contingent on a qualified financing transaction and thus you determined that bifurcation of the conversion option as a derivative was not required. Provide additional disclosure in the notes to the interim financial statements regarding the terms of the agreements and the accounting treatment for the conversion options.

Response:

The convertible notes issued in 2012 were not contingent on a qualified financing transaction. We analyzed the conversion feature and determined that it does not meet the criteria for bifurcation as a derivative. We recorded a beneficial conversion feature (BCF) based on the intrinsic value of the conversion option embedded in the debt instrument calculated by the difference between the fair value of the underlying common stock at the commitment date of the note and the effective conversion price embedded in the note. The BCF has been recorded as a debt discount and will be amortized over the life of the notes. If, after further analysis, we determine that the BCF would reduce the carrying value of the debt below zero, the excess will be charged to interest expense. We will revise our filing to include this accounting treatment for the 2012 interim financial statements.

Note 10. Warrants, page F-12

19. You have recorded the 2011 warrants as derivative liabilities due to ratchets included in the terms of those warrants. Please clarify in the filing that the warrants issued in January 2012 and February 2012 (OPKO warrants) were also recorded as derivatives and whether they had similar ratchets. If the 2012 warrants had different terms, please tell us the guidance you relied on to determine their accounting; treatment.

Response:

The warrants issued in 2012 contain the same terms as the warrants issued in 2011 and have been recorded as derivative liabilities. We will revise our disclosure to clarify that the warrants issued in 2012 have been classified as derivatives because of the terms of the warrants.

Item 16. Exhibits and Financial Statement Schedules

20. Please file a complete copy of Exhibit 10.4, the Securities Purchase Agreement dated February 28, 2011.

Response:

The Company has filed a complete copy of Exhibit 10.4, the Securities Purchase Agreement dated February 28, 2011. Notwithstanding the foregoing, at the time the Securities Purchase Agreement was executed, there was no form of UCC Financing Statements or form of Legal Opinion of the Company's Counsel included as exhibits to the Securities Purchase Agreement.

21. Please revise your exhibit index to list the complete name of each agreement, including the identity the third parties and the dates of each agreements.

Response:

The Company has revised the exhibit index to list the complete name and date of each agreement to the extent such agreement was not filed as a "Form".

***

The Company hereby acknowledges the following:

- The Company is responsible for the adequacy and accuracy of the disclosures in the filings;
- Staff comments or changes to disclosures in response to staff comments do not foreclose the Commission from taking any action with respect to the filings; and
- The Company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

Please do not hesitate to contact the undersigned at 646-810-0611 if you have any questions or comments. Thank you.

Very truly yours,

/s/ Tara Guarneri-Ferrara

Tara Guarneri-Ferrara

Cc: Elliot Maza, CEO