

OPEXA THERAPEUTICS, INC.

FORM 10KSB (Annual Report (Small Business Issuers))

Filed 04/15/05 for the Period Ending 12/31/04

Address	2635 TECHNOLOGY FOREST BLVD. THE WOODLANDS, TX 77381
Telephone	(281) 272-9331
CIK	0001069308
Symbol	OPXA
SIC Code	2834 - Pharmaceutical Preparations
Fiscal Year	12/31

PHARMAFRONTIERS CORP

FORM 10KSB

(Annual Report (Small Business Issuers))

Filed 4/15/2005 For Period Ending 12/31/2004

Address	2408 TIMBERLOCH PLACE, SUITE B-7 THE WOODLANDS, Texas 77380
Telephone	(281)272-9331
CIK	0001069308
Fiscal Year	12/31

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

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

Commission file number 0-25513

PharmaFrontiers Corp.

(Exact name of small business issuer as specified in its charter)

Texas

76-0333165

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

2408 Timberloch Place, Suite B-7, The Woodlands, Texas

77380

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (281) 272-9331

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

Issuer's revenues for the fiscal year ended December 31, 2004: \$0.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Issuer as of April 13, 2005, based upon the average bid and asked price as of such date, was \$35,713,151.

The Registrant's common stock outstanding as of March 14, 2005, was 10,284,526 shares

DOCUMENTS INCORPORATED BY REFERENCE:

The Registrant is incorporating by reference in Part III of this Form 10-KSB certain information contained in the Registrant's proxy statement for its annual meeting of shareholders, which proxy statement will be filed by the Registrant on or before May 2, 2005.

Transitional Small Business Disclosure Format (Check One): Yes ☐ No ☒

PharmaFrontiers Corp.

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FORWARD LOOKING STATEMENT

The statements contained in this report, other than statements of historical fact, constitute forward-looking statements. Such statements include, without limitation, all statements as to expectation or belief and statements as to our future results of operations, the progress of our research and product development programs, the need for, and timing of, additional capital and capital expenditures, partnering prospects, the need for additional intellectual property rights, effects of regulations, the need for additional facilities and potential market opportunities. Our actual results may vary materially from those contained in such forward-looking statements because of risks to which we are subject, such as failure to obtain a corporate partner or partners to support the development of our stem cell programs, our ability to sell, assign or sublease our interest in our facilities related to our encapsulated cell technology program, risks of delays in research, development and clinical testing programs, obsolescence of our technology, lack of available funding, competition from third parties, intellectual property rights of third parties, failure of our collaborators to perform, regulatory constraints, litigation and other risks to which we are subject.

Stock Split

In April 2004, the Company's shareholders approved a one for fifty reverse common stock split. All share, par share and par value amount (except authorized shares) have been retroactively adjusted to reflect the split.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

PharmaFrontiers Corp. is a biopharmaceutical company engaged in developing autologous personalized cell therapies. Our strategy is to develop and commercialize cell therapies to treat several major diseases including multiple sclerosis, cardiovascular diseases, and diabetes. We have an exclusive license to an individualized T cell therapy that is in FDA Phase I/II human dose ranging clinical trials to evaluate its safety and effectiveness in treating multiple sclerosis. We also have an exclusive license to a stem cell technology in which adult pluripotent stem cells are derived from monocytes obtained from the patient's own blood. We are initially pursuing indications in heart failure and Type I diabetes with our stem cell technology.

Autologous therapies use cells or other materials from the patient's own body to create treatments for the patient, thus preventing rejection complications that result when "foreign" or "non-self" cells are introduced into a patient. Cellular therapies are expected to play a large role in the treatment and cure of a broad spectrum of human diseases. According to independent market researchers, cellular therapies along with their related technologies, such as diagnostics and blood banking, may exceed \$30 billion by 2010.

Our multiple sclerosis cell therapy, Tovaxin(TM), is currently in Phase I/II studies. Tovaxin(TM) consists of modified autoreactive T cells. Multiple sclerosis is a result of a person's own T cells attacking the myelin sheath that coats the nerve cells of the central nervous system. These T cells, that attack a person's own body, are referred to as "autoreactive" T cells. In our treatment the T cells are taken from the patient, modified and returned to the patient. The modified T cells cause an immune response directed at the autoreactive T cells in the patient's body. This immune response reduces the level of autoreactive T cells and potentially allows the myelin sheath to be repaired. In addition, we are evaluating whether this technology will allow us to diagnose multiple sclerosis and determine the severity of the disease through an analysis of the level of autoreactive T cells in a patient's blood.

Two clinical studies of Tovaxin(TM) have reached critical milestones:

o In one study, a first group of 10 patients has been enrolled and received two doses of Tovaxin(TM) in a repeat treatment Phase I/II protocol. This protocol is designed to determine whether patients who received clinical benefit from T cell therapy in a previous study conducted at the Baylor College of Medicine can be safely and effectively re-treated with a second-generation T cell therapy. Six-month clinical results evaluating safety, tolerability and efficacy are expected to be available by the third quarter of 2005.

o In the second study, a Phase I/II dose-escalating study designed to evaluate safety, tolerability and efficacy in 9 to 15 patients, 6 patients have completed the initial four dose injection series for two dosage levels and the 28-week portion of the study. One-year clinical results for the low and mid dose groups evaluating safety, tolerability, dosage timing and efficacy are expected to be available by the third quarter of 2005.

We intend to submit data from these two clinical studies to the FDA for approval to commence a pivotal Phase IIb study in the fourth quarter of 2005.

Our stem cell technology allows us to create adult pluripotent stem cells from monocytes isolated from blood drawn from the patient. We believe that these stem cells, if successfully developed, may provide the basis for therapies to treat a variety of diseases and conditions. We anticipate that our stem cell technology will have a significant competitive advantage over many of the other stem cell technologies. The peripheral blood monocytes, used by our technology to produce stem cells, have the advantage of being relatively abundant and easy and cost effective to obtain. Our technology does not have the collection and storage difficulties presented by umbilical cord blood or the controversial ethical and regulatory issues associated with embryonic stem cells. In addition, our technology is less difficult and less risky than collecting adult stem cells from tissues such as bone marrow, spinal fluid or adipose (fat) tissue. Furthermore, our stem cells are pluripotent, whereas other adult stem cells are not likely to be pluripotent.

Our stem cell technology will also avoid rejection issues because it is autologous ("self"). This is as opposed to the embryonic, umbilical, and some adult stem cell technologies, which must be taken from one individual and given to another. Further, we believe our stem cell therapies will be regulated as autologous "manipulated" non-homologous use cell therapies. Thus, we use a person's own stem cells, and we therefore do not expect to encounter the same significant pre-clinical and clinical development regulatory hurdles that embryonic, umbilical, and some adult stem cells therapies are expected to face.

Initially we are conducting pre-clinical research to develop stem cell therapies to treat heart failure and Type I diabetes. We plan to move expeditiously through pre-clinical development of our cardiac stem cell therapy and, if successful, initiate human testing as soon as possible.

We believe that with our stem cell technology plus our additional technology related to the differentiation of stem cells into islet cells, we will be able to create insulin producing islet cells derived from the patient's own blood. We are currently conducting laboratory research and plan to move expeditiously through pre-clinical development of our diabetes stem cell therapy and, if successful, initiate human testing in 2006.

A structural outline of the Company's technical program is provided below.

Autologous Cell-Based Therapies			

Adult Pluripotent Stem Cell Therapy		T Cell Therapy	

Cardiac Therapy	Diabetes Therapy	Multiple Sclerosis Therapy	Multiple Sclerosis Diagnosis

Other Therapies		Blood Banking	
o Macular Degeneration			
o Stroke			
o Parkinson's			

Organizational History

The Company was incorporated in Texas in 1986 and originally engaged in businesses other than the biopharmaceutical business. These other business operations were terminated in February 2002. In May 2004, we entered the biopharmaceutical business by acquiring an entity that held rights to treatments using adult pluripotent stem cells derived from adult human peripheral blood, and in connection therewith we changed our name to our current corporate name. From an accounting standpoint, the subsidiary is deemed the acquirer in a reverse merger whereby the parent is deemed the survivor of the reorganization/reverse merger. As such, our financial statements are those of the subsidiary. In November 2004, we acquired Opexa Pharmaceuticals, Inc., which holds rights to technology to diagnose and treat multiple sclerosis through modified autoreactive T cells.

The Company's Products and Services

Our T cell Based Therapy

Multiple Sclerosis Therapy.

Our T cell based therapy for the treatment of multiple sclerosis is called "Tovaxin(TM)." Multiple sclerosis is caused by myelin peptide reactive T cells destroying the myelin sheath coating of the axons in the central nervous system. Depletion of the myelin peptide reactive T cells would theoretically stop disease progression and in some cases allow the myelin sheath repair mechanism to be effective and potentially lead to remission and possibly reverse the effects of multiple sclerosis. Repair mechanisms are more likely to occur early in the disease process and are likely to be more robust in the younger patient. A completed 114-patient clinical study conducted by Dr. Jingwu Zang at Baylor College of Medicine has demonstrated that the depletion of myelin basic protein (MBP) reactive T cells was beneficial to patients with multiple sclerosis. These investigations resulted in the development of Tovaxin(TM), which includes the modified MBP reactive T cells, proteolipid protein (PLP) and myelin oligodendrocyte glycoprotein (MOG) reactive T cells as well.

Tovaxin(TM) has some advantages over existing treatments for multiple sclerosis. Tovaxin(TM) is individualized, easier to tolerate, and has the potential to place the disease into remission, and possibly to allow a reversal of the effects of multiple sclerosis.

Multiple Sclerosis Diagnostic

In addition to using our T cell technology to develop a therapy for multiple sclerosis, we are also using it to develop a diagnostic test for multiple sclerosis. Multiple sclerosis is difficult to diagnose and there is no existing reliable confirmatory diagnostic test. Based on preliminary evidence we believe that the presence of myelin peptide reactive T cells in the blood may have a high correlation as to whether an individual may develop or has multiple sclerosis. We have initiated a proof of concept clinical study that, if successful, will be expanded into a major clinical study in 2005. If the larger study produces favorable results, we plan to offer a diagnostic test for sale in 2006.

Applications of Our T cell Technology To Other Diseases

Recent advances in the understanding of basic mechanisms of autoimmune disease have led to the development of reagents that can potentially interfere with the disease process and limit disease progression. Some of these therapeutics have been proven effective in the treatment of autoimmune conditions. Although our initial focus is T cell therapy for the treatment and management of multiple sclerosis, several autoimmune diseases including inflammatory bowel disease, diabetes, systemic lupus and rheumatoid arthritis may be candidates for potential treatment with our technology in the future.

Our T cell Therapy Process

Our cell therapy is similar to that of traditional microbial vaccination where modified infectious agents are used to stimulate protective immune responses. In preparing a T cell therapy, the T cells causing the disease are taken from the blood, specifically identified and expanded ex vivo by incubating T cells with MBP, PLP and MOG selected peptides in the presence of antigen presenting cells and growth factors. Selected T cells are grown to therapeutic levels and cryopreserved. Prior to use, the T cells are expanded, formulated and modified to render them replication incompetent but viable. These modified T cells are administered subcutaneously as a primary series of injections. It is likely that a retreatment of patients will follow the primary series.

Our Pluripotent Adult Stem Cell Therapies

Our Cardiac Stem Cell Therapy Program

Stem cell treatment of congestive heart failure would revolutionize treatment of the disease because it would treat the source of the problem by replacing diseased cardiac muscle tissue with stem cells that grow into new healthy cardiac tissue. Several human clinical trials involving the use of stem cells derived from bone marrow to regenerate cardiac tissue and improve cardiac function have been conducted. These clinical trials have treated over 70 patients with their own bone marrow stem cells and have shown increased cardiac perfusion. We plan to move expeditiously through pre-clinical development of our cardiac stem cell therapy and, if successful, initiate human testing as soon as possible.

Our Diabetes Stem Cell Therapy Program

Type 1 diabetes is a chronic disease, caused by the loss of functioning islet cells that produce insulin, for which there is no cure. Frequent testing of glucose levels coupled with insulin injections are used to control the disease but do not address the underlying cause. The medical community has tried to treat the cause and cure the disease by implanting functioning islet cells, harvested from cadavers, into the pancreas. However, the supply of these cells from cadavers is limited and the patient must be placed on a regime of anti-rejection drugs. We believe that with our stem cell technology plus our additional technology related to the differentiation of stem cells into islet cells, we will be able to create insulin producing islet cells derived from the patient's own blood. We are currently conducting laboratory tests and plan to move expeditiously through pre-clinical development of our diabetes stem cell therapy and, if successful, initiate human testing as soon as possible.

Blood Banking Business

We are assessing the feasibility of operating a blood banking business designed to provide individuals with a process for storing blood to be used later if they need treatment by our stem cell technology. As an individual ages, it is possible that the number of available monocytes per blood draw will decrease, thus creating a demand for the cryopreservation of stem cells from healthy and relatively young adults. As the volume of stem cell treatments increase, there may be a demand from patients for the storage of their adult stem cells isolated from single blood draws. We are reviewing the potential establishment of a stem cell cryopreservation service.

Other Applications For Our Stem Cell Technology

We plan to conduct basic research to determine the potential use of adult stem cells created with our technology in other indications such as macular degeneration, heart attack, and Parkinson's disease. Liver cells (hepatocytes) derived from our stem cells may be valuable across the biopharmaceutical industry to test for drug toxicity or to help cure liver diseases. We intend to partner or sublicense some of these indications if they are not pursued for internal development. For those indications, which we believe we can participate commercially, we expect to take partners in key commercial markets outside of the United States. Alternatively, we may form a broad alliance with a pharmaceutical or biotechnology company for the entire technology platform and therapeutic areas.

Our Stem Cell Therapy Process

Our stem cell therapy process commences with blood being drawn from the patient in a typical blood drawing process. The blood is then processed to obtain monocytes (white blood cells). These monocytes can be dedifferentiated in the presence of certain growth factors to form stem cells. The resulting stem cells with macrophage-like characteristics can be expanded and differentiated into other cell types when cultured in the presence of the appropriate growth factors. Researchers have been able to turn these dedifferentiated monocytes into several different types of cells including islet cells, nerve cells, liver cells, blood vessel cells and skin cells.

We estimate that from a 500 ml blood collection, the maximum allowable blood draw in one sitting, we will be able to produce approximately 10 to 100 million monocyte derived stem cells. This number of stem cells is considerably greater than current stem cell dosing requirements under study in human clinical studies by other companies and institutions. Consequently, we expect that we may be able to produce multiple therapeutic doses from a single blood draw utilizing cryopreservation to store cells for future use.

We anticipate that the patient's blood will be drawn at the patient's hospital or doctor's office and shipped to us with a proprietary collection kit. At our GMP (current good manufacturing process) manufacturing facility, the monocytes will be processed to create stem cells and their progeny with the proper concentration and characteristics. Cells will then be cryopreserved until needed for treatment, transported to the patient's physician, and injected into the diseased organ with the approved delivery system.

Sources of Stem Cells and Our Competitive Advantages

Cells are the basic unit of the tissues that comprise the human body. Each type of tissue has a functional use to the human body. Stem cells are non-specialized cells that have not yet differentiated into specific cells with a particular function in the human body. These non-specialized cells are able to continue to divide and regenerate for periods of time through cell division. Pluripotent stem cells have the property of being able to differentiate into all the different specialized cells that make up the individual tissues of the body with the exception of germ cells (sperm and egg).

There are currently three sources of stem cells: human embryos, umbilical cord blood and certain adult tissues:

- o Every human begins life when a single cell, the zygote, is formed after fertilization. About five days after conception, a tiny ball of cells has formed, this is known as the blastocyst. The inner cells of the blastocyst are known as embryonic stem cells. These stem cells are pluripotent; that is they can develop into a wide variety of cell types in the human body. These embryonic stem cells are the stem cells over which a great deal of ethical and scientific controversy has ensued, leading up to President Bush's September 2001 ban on Federal funding for any new embryonic stem cell lines. We do not use embryonic stem cells.

- o Another source of stem cells is the umbilical cord blood of a newborn baby, which contains pluripotent stem cells. The umbilical cord is the tissue that ties a baby to the mother within the womb. After the baby is born the blood can be collected from the umbilical cord and cryopreserved. Most candidates for stem cell therapy today did not have their umbilical cord blood frozen, so to use this technology, like the embryonic stem cells above, they must use the stem cells from other individuals and must address rejection issues. We use a person's own stem cells, and thus we do not expect to encounter the same significant pre-clinical and clinical development regulatory hurdles that embryonic, umbilical, and certain adult stem cells therapies are expected to face.

- o Stem cells obtained from a person after birth are called adult stem cells and are found within various tissues that make up the body. Adult stem cells are usually programmed to form a limited number of different cell types of their own tissue, and are classified as "multipotent" meaning they are only able to create several different types of cells within the same type of tissue. Our stem cells are pluripotent and can be differentiated into a wider variety of different tissue types. In addition, collecting adult stem cells from tissues such as bone marrow, spinal fluid or adipose (fat) tissue, can involve complicated, painful, and expensive surgical procedures, whereas our technology is simple, cost effective, and convenient to the patient.

Licenses, Patents and Proprietary Rights

We believe that proprietary protection of our technologies is critical to the development of our business. We intend to continue to protect our proprietary intellectual property through patents and other appropriate means. We rely upon trade-secret protection for some confidential and proprietary information and take active measures to control access to that information. We currently have non-disclosure agreements with all of our employees, consultants, vendors, advisory board members, contract research organizations and certain prospective investors.

The Company's intellectual property strategy includes developing proprietary technology for the sourcing, scale up, manufacturing, and storage of T cells and pluripotent adult stem cells and the use of these cells in multiple therapeutic applications. This strategy will include expanding on technologies in-licensed to us as well as in-licensing additional technologies through collaborations with universities and biotech companies.

We have licenses to certain patents that relate to our T cell technology and our pluripotent adult stem cell technology.

T Cell Therapy IP

We have an exclusive, worldwide license from the Baylor College of Medicine to patent applications claiming rights to the treatment of multiple sclerosis using modified T cells and to the use of the T cell technology as a diagnostic. Under the Baylor license we are obligated to pay a percentage of net sales of products subject to the licensed patents.

Stem Cell Therapy IP

We have an exclusive, worldwide license from the University of Chicago, through its prime contractor relationship with Argonne National Laboratory, to a patent application claiming rights to the development of adult pluripotent stem cells from monocytes isolated from adult human peripheral blood. The technology was discovered and developed at the Argonne National Laboratory, a U.S. Department of Energy Laboratory.

Pursuant to the license we have issued a total of 242,688 shares of our common stock to the University of Chicago. We have also agreed to pay the University of Chicago \$1.5 million upon our receiving \$10 million or more in any financing. At the same time as making such payment, we are obligated to issue to the University of Chicago sufficient additional shares of common stock so that the University holds a total of 2.6% of our outstanding stock after consummation of the financing.

We have agreed to pay a percentage of royalties on sales of products subject to the licensed patents, as well as sublicense fees. In addition, the University of Chicago license requires us to expend on research and development at least \$2,000,000 within two (2) years of the execution of the license and at least an additional \$4,000,000 within four (4) years of the execution of the license. Research and development expenditures by sublicensees may account for half of each amount. Failure to meet the above criteria may result in the license being amended to restrict the grant to only: (a) an exclusive license in two cell therapy areas, and (b) a non-exclusive license in the remaining cell areas. The license also requires us to sell a product or method based on the licensed technology by February 2011.

Our Product Pipeline

Multiple Sclerosis T Cell Therapy

Tovaxin is a unique approach to treating multiple sclerosis in that it safely and selectively induces the body's immune system to attack the myelin reactive T-cells (MRTCs) that are responsible for destroying the myelin sheath coating of the axons in the central nervous system. Depletion of the MRTCs would theoretically allow the myelin sheath repair mechanism to be effective and to potentially lead to remission and possibly reverse or stop progression of multiple sclerosis. Repair mechanisms are more likely to occur early in the disease process and are likely to be more robust in the younger patient. A 114-patient clinical study conducted by Dr. Jingwu Zang at Baylor College of Medicine has already been completed that demonstrates that the depletion of myelin basic protein (MBP) reactive T-cells was beneficial to patients with multiple sclerosis. From these investigations, the Company has developed Tovaxin, which encompasses not only the MBP reactive T-cells but has been expanded to include proteolipid protein (PLP) and myelin oligodendrocyte glycoprotein (MOG) reactive T-cells as well.

Initial human trials conducted by the Company show that Tovaxin safely reduces MRTCs, thus stabilizing the disease and in the majority of patients showing improvement both subjectively (reported by the patient) and objectively (determined by the exam).

Tovaxin is currently in Phase I/II testing. Compared to other treatments available, this treatment is individualized, easier to tolerate, and has the potential to place the disease into a remission, and possibly reverse or stop progression of multiple sclerosis. Tovaxin may also be appropriately indicated for combination therapy meaning that one can imagine it being used over the entire life cycle of the patient as other treatments are added and replaced.

Multiple Sclerosis Diagnostic

Multiple Sclerosis is difficult to diagnose and there is no reliable confirmatory diagnostic. Based on preliminary evidence the presence of MRTCs in the blood of patients that are ex vivo expandable may have a correlation as to whether an individual has or may develop multiple sclerosis. The Company has initiated a proof of concept clinical study that may be expanded into a major clinical study. A diagnostic test conducted in the Company's laboratories may be commercialized in the future as "home brew".

Cardiac Stem Cell Therapy

Stem cell treatment of congestive heart failure would revolutionize treatment of the disease because it would treat the source of the problem by replacing diseased cardiac muscle tissue with stem cells that grow into new healthy cardiac tissue. Approximately six Phase I clinical studies encompassing more than 70 patients have been run with autologous bone marrow stem cells that show consistently improved cardiac perfusion. A recent (2003-2004) trial reported that injected autologous bone marrow mononuclear cells, using electromechanical mapping into areas of ischemic myocardium in patients with endstage ischemic cardiomyopathy and heart failure, showed a therapeutic effect with improved myocardial perfusion and exercise capacity, at 6 and 12 months, as well as increased global left ventricular function. Numerous new studies are actively recruiting patients or will begin shortly. Each of these studies is designed to determine the most efficient type of stem cell and mode of delivery as well as time of therapy to maximize the benefits of cellular cardiomyoplasty. Using the experience of these Phase I trials we plan to move quickly through pre-clinical development and, if successful, initiate human testing as soon as practicable.

Diabetes Stem Cell Therapy

Type 1 diabetes is a chronic disease for which there is no treatment. Frequent testing of glucose levels coupled with insulin injections are used to control the disease but do nothing for the underlying cause. Implanting functioning islet cells into the pancreas would be the beginnings of a cure but thus far the supply of these cells from cadavers is limited and anti-rejection drugs must be used. The Company believes it can piggyback on the success of the cadaver islet cell program and replace the cadaver cells with insulin producing cells derived from adult monocyte derived stem cells. The Company holds a license to produce cells that generate insulin using the core stem cell technology and will hold a license for the use of some unique growth factors, which have overcome the major scientific challenge of differentiating an adult stem cell to produce insulin. Our goal is to schedule human trials as soon as practicable.

Blood Banking

The possibility for generating near term revenue exists with the establishment of a stem cell cryopreservation service. As the volume of stem cell treatments increase, the potential exists for current and future patients to freeze their adult stem cells isolated from single blood draws. As an individual ages, it is possible that the number of available monocytes per blood draw will decrease, thus creating a demand for the cryopreservation of stem cells from healthy and relatively young adults. An assessment of instituting such a service will be carried out over the next several months and a plan of implementation executed if deemed feasible.

Other Opportunities

The Company will also conduct basic research to determine the potential use of the Company's stem cells in other indications such as macular degeneration, heart attack, and Parkinson's disease. Liver cells (hepatocytes) derived from our stem cells may be valuable across the biopharmaceutical industry to test for drug toxicity or to help cure liver diseases. The Company intends to partner or sublicense some of these indications if they are not pursued for internal development. For those indications where the Company feels it can participate commercially, the Company will take partners in key commercial markets outside of the United States. There is also significant potential for the Company to form a broad alliance with a pharmaceutical or large biotechnology company for the entire technology platform and therapeutic areas, due to the many competitive advantages outlined above.

Research Collaborations

We anticipate that from time to time in the future we will enter into collaborative research agreements with other academic and research institutions. We will use such agreements to enhance our research capabilities. Typically, in the industry, such agreements provide the industry partner with rights to license the intellectual property created through the collaboration. We may also enter into collaborative research agreements with other pharmaceutical companies when we believe such collaboration will support the development and commercialization of our technology.

Commercialization Through Third Party

We anticipate that we will grant sublicenses for certain applications of our technologies. We believe that by sublicensing some of the rights to our technology to pharmaceutical companies and other third parties, we will be able to more efficiently develop some applications of our technologies. We currently do not have any sublicenses.

Competition

The development of therapeutic and diagnostic agents for human disease is intensely competitive. Major pharmaceutical companies currently offer a number of pharmaceutical products to treat heart attack, stroke, Parkinson's disease, diabetes, liver diseases, arthritis and other diseases for which our technologies may be applicable. Many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the same purposes, which may achieve new efficacy profiles, extend the therapeutic window for such products, alter the prognosis of these diseases, or prevent their onset. We believe that our products, when and if successfully developed, will compete with these products principally on the basis of improved and extended efficacy and safety and their overall economic benefit to the health care system. We expect competition to increase. We believe that our most significant competitors will be fully integrated pharmaceutical companies and more established biotechnology companies. Smaller companies may also be significant competitors, particularly through collaborative arrangements with large pharmaceutical or biotechnology companies. Some of our primary competitors in the current treatment of and in the development of treatments for multiple sclerosis include Biogen, Elan, Serono, Aventis, Teva, and Schering AG. Some of our primary competitors in the development of stem cell therapies include Aastrom Biosciences, Geron, Gamida-Cell Ltd, Stem Cells Inc., Cellerant Therapeutics, Viacell, and Osiris Therapeutics. Many of these competitors have significant products in development that could be competitive with our potential products.

Sales and Marketing

We intend to develop a sales force to market our multiple sclerosis cell therapy and diagnostic products in the U.S. Given the concentration of multiple sclerosis among a relatively small number of specialized neurologists, we believe that a modest size sales force would be sufficient to market the multiple sclerosis products. Our plan is to start building the sales force with the launch of the multiple sclerosis diagnostic products.

We expect to partner with large biotech and pharmaceutical companies for the marketing and sales of our stem cell therapy products.

Government Regulation

Our research and development activities and the future manufacturing and marketing of our potential products are, and will be, subject to regulation for safety and efficacy by a number of governmental authorities in the United States and other countries.

In the United States, pharmaceuticals, biologicals and medical devices are subject to FDA regulation. The Federal Food, Drug and Cosmetic Act, as amended, and the Public Health Service Act, as amended, the regulations promulgated thereunder, and other Federal and state statutes and regulations govern, among other things, the testing, manufacture, safety, efficacy, labeling, storage, export, record keeping, approval, marketing, advertising and promotion of our potential products. Product development and approval within this regulatory framework takes a number of years and involves significant uncertainty combined with the expenditure of substantial resources.

FDA Approval

We will need to obtain FDA approval of any therapeutic product we plan to market and sell. The steps required before our potential products may be marketed in the United States include:

1. **Preclinical Laboratory and Animal Tests.** Preclinical tests include laboratory evaluation of the product and animal studies in specific disease models to assess the potential safety and efficacy of the product and our formulation as well as the quality and consistency of the manufacturing process.
2. **Submission to the FDA of an Application for an Investigational New Drug Exemption, or IND, Which Must Become Effective Before U.S. Human Clinical Trials May Commence.** The results of the preclinical tests are submitted to the FDA as part of an IND, and the IND becomes effective 30 days following its receipt by the FDA, as long as there are no questions, requests for delay or objections from the FDA.
3. **Adequate and Well-Controlled Human Clinical Trials to Establish the Safety and Efficacy of the Product.** Clinical trials involve the evaluation of the product in healthy volunteers or, as may be the case with our potential products, in a small number of patients under the supervision of a qualified physician. Clinical trials are conducted in accordance with protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Any product administered in a U.S. clinical trial must be manufactured in accordance with GMP. Each protocol is submitted to the FDA as part of the IND.

The protocol for each clinical study must be approved by an independent Institutional Review Board, or IRB, at the institution at which the study is conducted and the informed consent of all participants must be obtained. The IRB will consider, among other things, the existing information on the product, ethical factors, the safety of human subjects, the potential benefits of the therapy and the possible liability of the institution.

Clinical development is traditionally conducted in three sequential phases, which may overlap:

- o In Phase I, products are typically introduced into healthy human subjects or into selected patient populations to test for adverse reactions, dosage tolerance, absorption and distribution, metabolism, excretion and clinical pharmacology.
- o Phase II involves studies in a limited patient population to (i) determine the efficacy of the product for specific targeted indications and populations, (ii) determine optimal dosage and dosage tolerance and (iii) identify possible adverse effects and safety risks. When a dose is chosen and a candidate product is found to be effective and to have an acceptable safety profile in Phase II evaluations, Phase III trials begin.
- o Phase III trials are undertaken to conclusively demonstrate clinical efficacy and to test further for safety within an expanded patient population, generally at multiple study sites.

The FDA continually reviews the clinical trial plans and results and may suggest changes or may require discontinuance of the trials at any time if significant safety issues arise.

1. Submission to the FDA of Marketing Authorization Applications. The results of the preclinical studies and clinical studies are submitted to the FDA in the form of marketing approval authorization applications.

2. FDA Approval of the Application(S) Prior to Any Commercial Sale or Shipment of the Drug Biologic Product Manufacturing Establishments Located in Certain States Also May be Subject to Separate Regulatory and Licensing Requirement. The testing and approval process will require substantial time, effort and expense. The time for approval is affected by a number of factors, including relative risks and benefits demonstrated in clinical trials, the availability of alternative treatments and the severity of the disease. Additional animal studies or clinical trials may be requested during the FDA review period, which might add to that time.

After FDA approval for the product, the manufacturing and the initial indications, further clinical trials may be required to gain approval for the use of the product for additional indications. The FDA may also require unusual or restrictive post-marketing testing and surveillance to monitor for adverse effects, which could involve significant expense, or may elect to grant only conditional approvals.

FDA Manufacturing Requirements

Among the conditions for product licensure is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to the FDA's GMP requirement. Even after product licensure approval, the manufacturer must comply with GMP on a continuing basis, and what constitutes GMP may change as the state of the art of manufacturing changes. Domestic manufacturing facilities are subject to regular FDA inspections for GMP compliance, which are normally held at least every two years. Foreign manufacturing facilities are subject to periodic FDA inspections or inspections by the foreign regulatory authorities with reciprocal inspection agreements with the FDA. Domestic manufacturing facilities may also be subject to inspection by foreign authorities.

Fast Track, Priority Review and Accelerated Approval

Fast Track refers to a process for interacting with the FDA during drug development. Priority Review applies to the time frame the FDA targets for reviewing a completed application. Accelerated Approval (Subpart H) applies to the design and content of the studies used to support a marketing claim.

Fast Track is a formal mechanism to interact with the FDA using approaches that are available to all applicants for marketing claims. The Fast Track mechanism is described in the Food and Drug Administration Modernization Act of 1997. The benefits of Fast Track include scheduled meetings to seek FDA input into development plans, the option of submitting a New Drug Application (NDA) in sections rather than all components simultaneously, and the option of requesting evaluation of studies using surrogate endpoints as discussed below. The Fast Track designation is intended for the combination of a product and a claim that addresses an unmet medical need, but is independent of Priority Review and Accelerated Approval. An applicant may use any or all of the components of Fast Track without the formal designation. Fast Track designation does not necessarily lead to a Priority Review or Accelerated Approval.

Priority Review is a designation for an application after it has been submitted to the FDA for review for approval of a marketing claim. Under the Food and Drug Administration Modernization Act of 1997, reviews for NDAs are designated as either Standard or Priority. A Standard designation sets the target date for completing all aspects of a review and the FDA taking an action on the application (approve or not approve) at 10 months after the date it was filed. A Priority designation sets the target date for the FDA action at 6 months. A Priority designation is intended for those products that address unmet medical needs.

Accelerated Approval or Subpart H Approval is a program described in the NDA regulations that is intended to make promising products for life threatening diseases available on the market on the basis of preliminary evidence prior to formal demonstration of patient benefit. The studies are designed to measure and the FDA evaluation is performed on the basis of a surrogate marker (a measurement intended to substitute for the clinical measurement of interest, usually prolongation of survival) that is considered likely to predict patient benefit. The approval that is granted may be considered a provisional approval with a written commitment to complete clinical studies that formally demonstrate patient benefit. The Federal Register published a discussion of Accelerated Approval with comments. Absent a formal demonstration of patient benefit, a risk benefit assessment cannot be made. Accelerated Approval designation does not necessarily lead to a Priority Review.

Proposed FDA Regulations

The FDA is requiring human cell, tissue, and cellular and tissue-based product (HCT/P) establishments to follow current good tissue practice, which governs the methods used in, and the facilities and controls used for, the manufacture of HCT/Ps; recordkeeping; and the establishment of a quality program. The agency is also issuing new regulations pertaining to labeling, reporting, inspections, and enforcement that will apply to manufacturers of those HCT/Ps regulated solely under the authority of the Public Health Service Act, and not as drugs, devices, and/or biological products.

As part of this approach, the FDA has published final rules for registration of establishments that engage in the recovery, screening, testing, processing, storage or distribution of human cells, tissues, and cellular and tissue-based products, and for the listing of such products. These products specifically include stem cells that are progenitors of blood cells; however, the FDA makes no explicit statement regarding the inclusion of other types of stem cells. In addition, the FDA has published proposed rules for making suitability determinations for donors of cells and tissue and for current good tissue practice for manufacturers using them. We cannot now determine the full effects of this regulatory initiative, including precisely how it may affect the clarity of regulatory obligations and the extent of regulatory burdens associated with pluripotent adult stem cell research (for stem cells that give rise to various tissue types, including blood), and the manufacture and marketing of adult stem cell products.

Other Regulations

In addition to safety regulations enforced by the FDA, we are also subject to regulations under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act and other present and potential future foreign, Federal, state and local regulations.

Outside the United States, we will be subject to regulations that govern the import of drug products from the United States or other manufacturing sites and foreign regulatory requirements governing human clinical trials and marketing approval for our products. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursements vary widely from country to country. In particular, the European Union is revising its regulatory approach to high tech products, and representatives from the United States, Japan and the European Union are in the process of harmonizing and making more uniform the regulations for the registration of pharmaceutical products in these three markets.

Research and Development

Research and development expenses for the year ended December 31, 2004 were \$0.6 million for PharmaFrontiers. On a pro forma basis for the combined companies research and development expenses for the year ended December 31, 2004 were \$2.4 million, mainly reflecting the costs of the Phase I/II clinical trials for Tovaxin and pre-clinical cardiac and diabetes stem cell research.

Risk Factors

The following factors affect our business and the industry in which it operates. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known or that we currently consider immaterial may also have an adverse effect on our business. If any of the matters discussed in the following risk factors were to occur, our business, financial condition, results of operations, cash flows, or prospects could be materially adversely affected.

Our business is at an early stage of development.

Our business is at an early stage of development. We do not have any products in late-stage clinical trials or on the market. We are still in the early stages of identifying and conducting research on potential products. Our potential products will require significant research and development and preclinical and clinical testing prior to regulatory approval in the United States and other countries. We may not be able to develop any products, to obtain regulatory approvals, to enter clinical trials for any of our product candidates, or to commercialize any products. Our product candidates may prove to have undesirable and unintended side effects or other characteristics adversely affecting their safety, efficacy or cost-effectiveness that could prevent or limit their use. Any product using any of our technology may fail to provide the intended therapeutic benefits, or achieve therapeutic benefits equal to or better than the standard of treatment at the time of testing or production.

We have a history of operating losses and do not expect to be profitable in the near future.

We have not generated any profits since our entry into the biotechnology business, have no source of revenues, and have incurred significant operating losses. We expect to incur additional operating losses for the foreseeable future and, as we increase our research and development activities, we expect our operating losses to increase significantly. We do not have any sources of revenues and may not have any in the foreseeable future.

We will need additional capital to conduct our operations and develop our products, and our ability to obtain the necessary funding is uncertain.

We need to obtain significant additional capital resources through equity and/or debt financings, grants and/or collaborative research arrangements in order to develop products and continue our business. The timing and degree of any future capital requirements will depend on many factors, including:

- o the accuracy of the assumptions underlying our estimates for our capital needs in 2005 and beyond;
- o scientific progress in our research and development programs;
- o the magnitude and scope of our research and development programs;
- o our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- o our progress with preclinical development and clinical trials;
- o the time and costs involved in obtaining regulatory approvals;
- o the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims; and
- o the number and type of product candidates that we pursue.

We do not have any committed sources of capital. Additional financing through strategic collaborations, public or private equity financings, capital lease transactions or other financing sources may not be available on acceptable terms, or at all. Additional equity financings could result in significant dilution to our stockholders. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our programs, any of which could have a material adverse effect on our business.

Patents obtained by other persons may result in infringement claims against us that are costly to defend and which may limit our ability to use the disputed technologies and prevent us from pursuing research and development or commercialization of potential products.

A number of pharmaceutical, biotechnology and other companies, universities and research institutions have filed patent applications or have been issued patents relating to cell therapy, stem cells, T cells, and other technologies potentially relevant to or required by our expected products. We cannot predict which, if any, of such applications will issue as patents or the claims that might be allowed. We are aware that a number of companies have filed applications relating to stem cells. We are also aware of a number of patent applications and patents claiming use of stem cells and other modified cells to treat disease, disorder or injury.

If third party patents or patent applications contain claims infringed by either our licensed technology or other technology required to make and use our potential products and such claims are ultimately determined to be valid, there can be no assurance that we would be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology. If we are unable to obtain such licenses at a reasonable cost, we may not be able to develop some products commercially. There can be no assurance that we will not be obliged to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. An adverse outcome in such a suit could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties, or require us to cease using such technology.

Our competition includes fully integrated pharmaceutical companies that have significant advantages over us.

The markets for both therapeutic stem cell products and multiple sclerosis products are highly competitive. We expect that our most significant competitors will be fully integrated pharmaceutical companies and more established biotechnology companies. These companies are developing stem cell-based products, and they have significantly greater capital resources and expertise in research and development, manufacturing, testing, obtaining regulatory approvals and marketing than we currently do. Many of these potential competitors are further along in the process of developing products and also operate large, well-funded research and development programs. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent protection or product commercialization than we do. Competitive products may render any products or product candidates that we develop obsolete.

If we fail to meet our obligations under our license agreements, we may lose our rights to key technologies on which our business depends.

Our business currently depends on two licenses from third parties. Those third party license agreements impose obligations on us, such as payment obligations and obligations to diligently pursue development of commercial products under the licensed patents. If a licensor believes that we have failed to meet our obligations under a license agreement, the licensor could seek to limit or terminate our license rights, which could lead to costly and time-consuming litigation and, potentially, a loss of the licensed rights. During the period of any such litigation, our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our license rights were restricted or ultimately lost, our ability to continue our business based on the affected technology platform would be severely adversely affected.

If we are unable to obtain future patents and other proprietary rights our operations will be significantly harmed.

Our ability to compete effectively is dependent in part upon obtaining patent protection relating to our technologies. The patent positions of pharmaceutical and biotechnology companies, including ours, are uncertain and involve complex and evolving legal and factual questions. The coverage sought in a patent application can be denied or significantly reduced before or after the patent is issued. Consequently, we do not know whether the patent applications for our technology will result in the issuance of patents, or if any future patents will provide significant protection or commercial advantage or will be circumvented by others. Since patent applications are secret until the applications are published (usually eighteen months after the earliest effective filing date), and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that the inventors of our licensed patents were the first to make the inventions covered by the patent applications or that the licensed patent applications were the first to be filed for such inventions. There can be no assurance that patents will issue from the patent applications or, if issued, that such patents will be of commercial benefit to us, afford us adequate protection from competing products, or not be challenged or declared invalid.

Restrictive and extensive government regulation could slow or hinder our production of a cellular product.

The research and development of stem cell therapies is subject to and restricted by extensive regulation by governmental authorities in the United States and other countries. The process of obtaining U.S. Food and Drug Administration, or FDA, and other necessary regulatory approvals is lengthy, expensive and uncertain. We may fail to obtain the necessary approvals to continue our research and development, which would hinder our ability to manufacture or market any future product.

To be successful, our product candidates must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.

Our product candidates, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide to not accept and utilize these products. The product candidates that we are attempting to develop represent substantial departures from established treatment methods and will compete with a number of more conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of our developed products will depend on a number of factors, including:

- o our establishment and demonstration to the medical community of the clinical efficacy and safety of our product candidates;
- o our ability to create products that are superior to alternatives currently on the market;
- o our ability to establish in the medical community the potential advantage of our treatments over alternative treatment methods; and
- o reimbursement policies of government and third-party payers.

If the health care community does not accept our products for any of the foregoing reasons, or for any other reason, our business would be materially harmed.

We may be unable to open a blood cell bank facility, even if we have sufficient capital.

We currently do not own or operate a blood cell bank facility. To our knowledge, no other companies are freezing and storing pluripotent stem cells in the manner in which we plan to implement. We may not be able to locate a facility and/or personnel for the blood cell bank. Further, we may be unable to convince HMO's, insurance companies and private individuals of the potential benefit in cryofreezing an individual's blood for use in the future. The failure to open and operate the blood cell bank facility may adversely affect our business strategy.

Our management team has a limited history of working together.

We have a limited history of operations under our current officers and directors. Although experienced, our officers have not worked together for an extensive length of time. If for any reason our management members cannot work efficiently as a team, our business will be adversely affected. Further, any loss of one or more of our managers may also have an adverse affect on our business.

There is currently a limited market for our common stock, and any trading market that develops in the common stock may be highly illiquid and may not reflect the underlying value of the Company's net assets or business prospects.

Although our common stock is currently traded on the OTC Bulletin Board, there is currently a limited market for our common stock and there can be no assurance that an improved market will ever develop. If a trading market does develop, such market may be highly illiquid. Investors are cautioned not to rely on the possibility that an active trading market may develop.

If our share price is volatile, we may be the target of securities litigation, which is costly and time-consuming to defend.

In the past, following periods of market volatility in the price of a company's securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

Our "blank check" preferred stock could be issued to prevent a business combination not desired by management or our current majority shareholders.

Our articles of incorporation authorize the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined by our board of directors without shareholder approval. Our preferred stock could be utilized as a method of discouraging, delaying, or preventing a change in our control and as a method of preventing shareholders from receiving a premium for their shares in connection with a change of control.

Future sales of our common stock in the public market could lower our stock price.

We may sell additional shares of common stock in subsequent public or private offerings. We may also issue additional shares of common stock to finance future acquisitions. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

We presently do not intend to pay cash dividends on our common stock.

We currently anticipate that no cash dividends will be paid on the common stock in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that all earnings, if any, will be retained to finance the future expansion of the our business. Therefore, prospective investors who anticipate the need for immediate income by way of cash dividends from their investment should not purchase the shares offered in this offering.

Employees

As of December 31, 2004, we had 17 full time employees. We believe that our relations with our employees are good. None of our employees is represented by a union or covered by a collective bargaining agreement.

The following table sets forth certain information regarding the Company's current directors and executive officers.

Name	Age	Position
David B. McWilliams.....	61	President and Chief Executive Officer, Director
Robert H. Gow.....	71	Chairman of the Board
C. William Rouse.....	57	Chief Financial Officer
Jim C. Williams.....	61	Chief Operating Officer
Mitzi Martinez-Montgomery.....	50	Vice President of Discovery and Preclinical Operations
Donna R. Rill.....	50	Vice President of Operations
Sandy L. Livney.....	49	Vice President of Administration / Controller
Anthony N. Kamin.....	44	Director
Paul M. Frison.....	67	Director
Brian E. Rodriguez.....	35	Director

ITEM 2. DESCRIPTION OF PROPERTY

Our principal executive offices and research facilities are located at 2408 Timberloch Place, Suite B-7, The Woodlands, Texas, and our telephone number is (281) 272-9331. Our facilities are leased pursuant to operating leases for various terms. We believe that our lease is at a competitive or market rate and do not anticipate any difficulty in leasing suitable additional space upon expiration of our current lease term. We currently hold an option on 4,800 square feet of office and manufacturing space which adjoins our current location.

The Company conducts its research and development and clinical manufacturing in this 7,117 sq. ft. Woodlands facility and intends to continue to expand and enhance its state of the art manufacturing expertise. T cell and stem cell therapies can be manufactured in the same production suite; utilizing the same GMP trained personnel, thus allowing for significant operational synergy as the Company develops cellular products utilizing both technologies. The components of the manufacturing facility are a small gowning area, a common service area, and a GMP production suite for the manufacture of T cell and stem cell therapies with sufficient capacity for Phase I quantity products. The Company is planning to build a 1200 sq. ft. pilot facility for approximately \$1 million which will provide the necessary manufacturing capacity for Phase II & III clinical trials as well as the option to further expand the facility as the multiple sclerosis diagnostic product is launched.

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the period covered in this report to a vote of shareholders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

The common stock of PharmaFrontiers is traded on the Bulletin Board under the Symbol PFTR (previously traded under the Symbol SPOU until July 2004). The quarterly ranges of high and low sales prices for the last two fiscal years are shown below and reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions:

2004	HIGH	LOW
Fourth Quarter	\$ 9.50	\$ 5.90
Third Quarter	\$ 8.15	\$ 6.50
Second Quarter	\$ 14.25	\$ 0.01
First Quarter	\$ 0.03	\$ 0.01
2003	HIGH	LOW
Quarter ended December 31	\$ 1.50	\$ 0.30
Quarter ended September 30	1.50	0.25
Quarter ended June 30	1.50	0.25
Quarter ended March 31	1.50	0.25

No cash dividends have been declared on the Company common stock since the Company's inception and it is not anticipated that dividends will be declared on our common stock in the foreseeable future.

As of December 31, 2004, there were approximately 193 holders of record of our Common Stock.

Trades of our common stock may be subject to SEC Rule 15c-9, which imposes certain requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, brokers/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction prior to sale. The SEC also has rules that regulate broker/dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in that security is provided by the exchange or system). 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 prepared by the SEC that 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. These disclosure requirements have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result of these rules, investors may find it difficult to sell their shares.

Restrictions on Sales by Certain Existing Shareholders

A total of 3,941,248 shares are subject to a lock-up agreement that precludes any sales prior to June 4, 2005 and, thereafter, limits sales of up to an aggregate of 492,656 shares of Company common stock per 90-day period. This lock-up will terminate if the last sales price of the Company common stock is at or above \$10.00 per share for 10 out of 20 consecutive days, or upon a "change of control" transaction.

A total of 891,820 shares are subject to another lock-up agreement effective May 2004 that limits sales of up to an aggregate of 74,319 shares of Company common stock per 90-day period. This lock-up agreement restriction will terminate if the last sales price of the Company common stock is at or above \$10.00 per share for 10 out of 20 consecutive days commencing from the date of the Stock Transaction, or upon a "change of control" transaction.

A total of 2,500,000 shares are subject to another lock-up agreement effective November 5, 2004 that precludes any sales prior to November 5, 2005 and, thereafter, limits sales of up to an aggregate of 312,500 shares of Company common stock per 90-day period. There is no termination provision in this lock-up agreement.

Equity Compensation Plan Information

The following table sets forth information, as of December 31, 2004, with respect to the Company's compensation plans under which common stock is authorized for issuance. We issue options to officers, directors, employees and consultants under our stockholder approved 2004 Compensatory Stock Plan. Additionally, prior to July 2004, the Company issued warrants and options to certain officers, directors and consultants not approved by stockholders, which issuances were negotiated between the recipient and the Board of Directors on an issuance basis. We believe that the exercise price for all of the options set forth below reflects fair market value.

	Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Plan Category	(A)	(B)	(C)
Equity Compensation Plans Approved by Security Holders	1,132,000	\$3.00	868,000
Equity Compensation Plans Not Approved by Security Holders	200,000	\$3.00	-----
Total	1,332,000	\$6.00	868,000

Recent Sales of Unregistered Securities

Set forth below is certain information concerning issuances of securities by the Company that were not registered under the Securities Act.

On February 14, 2005 we completed the second tranch of a private offering of 15% convertible promissory notes (the "Notes"); we issued Notes with an aggregate principal amount of \$6.1 million. The Notes are mandatorily exchangeable for securities at the earlier of an "Equity Financing" (as defined below) or upon maturity on November 30, 2005. The Notes and accrued interest are convertible at a purchase price equal to the weighted average gross offering price of our common stock or common stock equivalents issued in an Equity Financing. If no such Equity Financing occurs, the Notes and accrued interest are convertible at \$3.00 per share on November 30, 2005. An "Equity Financing" is defined as our raising at least \$10,000,000 in one or a series of transactions of common stock or common stock equivalent securities prior to the maturity of the Notes. As additional consideration for the purchase of Notes, we issued to investors an aggregate of 612,468 shares of our common stock and, upon the earlier of an Equity Financing or maturity of the Notes, each investor will receive a one-year warrant to purchase shares of our common stock. Each warrant will be exercisable for that number of shares of common stock equal to the principal amount of the Note purchased divided by the warrant's exercise price. The warrant's exercise price will be equal to 50% of the weighted average gross offering price of equity issued in an Equity Financing or, if there is no Equity Financing, \$3.00 per share.

In December 2004 we issued to a director options to purchase 20,000 shares of Common Stock at the exercise price of \$3.00 per share. The option vested 1/3 on signing and 1/3 will vest on each of the next two anniversaries provided that he remains a director upon such anniversary dates.

In December 2004 we issued to a consultant options to purchase 80,000 shares of Common Stock at the exercise price of \$3.00 per share. The option will vest 1/3 on the first anniversary of signing and 1/3 on each of the next two anniversaries provided that he remains a consultant upon such anniversary dates.

In November 2004 we issued to an advisor options to purchase 20,000 shares of Common Stock at the exercise price of \$3.00 per share. The option will vest upon the first anniversary of the signing date.

In November 2004 the Company issued to four employees options to purchase an aggregate of 275,000 shares of Common Stock at the exercise price of \$3.00 per share. The options will vest 1/3 on the first anniversary of signing and 1/3 on each of the next two anniversaries provided that the employee remains employed upon such anniversary dates.

In November 2004 we issued to an advisor an option to purchase 50,000 shares of Common Stock at the exercise price of \$3.00 per share. The option will vest 1/3 on the first anniversary of signing and 1/3 on each of the next two anniversaries provided that he remains an advisor upon such anniversary dates.

In November 2004, we issued 2,500,000 shares to 30 accredited investors in connection with the acquisition of Opexa Pharmaceuticals, of which 250,000 shares are subject to an escrow agreement.

In November 2004 we issued to a director an option to purchase 20,000 shares of Common Stock at the exercise price of \$3.00 per share. The option vested 1/3 on signing and 1/3 on each of the next two anniversaries provided that he remains a director upon such anniversary dates.

The above transactions were completed pursuant to Section 4(2) of the Securities Act and did not involve any public offering and were sold to a limited group of persons. Each recipient either received adequate information about the Company or had access, through employment or other relationships, to such information, and the Company determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in the Company.

Except as otherwise noted, all sales of the Company's securities were made by officers of the Company who received no commission or other remuneration for the solicitation of any person in connection with the respective sales of securities described above. The recipients of securities represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Organizational History

The Company was incorporated in Texas in 1986 and originally engaged in businesses other than the biopharmaceutical business. These other business operations were terminated in February 2002. In May 2004, we entered the biopharmaceutical business by acquiring an entity that held rights to treatments using adult pluripotent stem cells derived from adult human peripheral blood, and in connection therewith we changed our name to our current corporate name. From an accounting standpoint, the subsidiary is deemed the acquirer in a reverse merger whereby the parent is deemed the survivor of the reorganization/reverse merger. As such, our financial statements are those of the subsidiary. On November 5, 2004, we acquired Opexa Pharmaceuticals, Inc., which holds rights to technology to diagnose and treat multiple sclerosis through modified autoreactive T cells.

The following discussion of our financial condition and results of operations should be read in conjunction with the accompanying financial statements and the related footnotes thereto.

Critical Accounting Policies

General

The Consolidated Financial Statements and Notes to Consolidated Financial Statements contain information that is pertinent to this management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities. Management believes these accounting policies involve judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related asset and liability amounts. Management believes it has exercised proper judgment in determining these estimates based on the facts and circumstances available to its management at the time the estimates were made. The significant accounting policies are described in the Company's financial statements (See Note 1 in the Notes to Consolidated Financial Statements).

Principles of consolidation

The accompanying consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Long-lived assets

Long-lived assets (i.e., intangible assets) are reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the difference between the net book value of the asset and the estimated fair value of the related asset. Management does not believe any assets have been impaired at December 31, 2004.

Revenue

We did not receive any revenue in 2004 and do not expect any revenue in 2005.

Intellectual Property

As of December 31, 2004, we had \$27,042,834 of intellectual property, \$23,991,128 of which resulted from the acquisition of Opexa Pharmaceuticals and \$3,051,706 which pertained to the consideration paid to the University of Chicago for the worldwide license to technology developed at Argonne National Laboratory. Of the \$23,991,128 of acquired intangible assets, the full amount is assigned to an inseparable group of patents and licenses that cannot function independently by themselves. The weighted average useful life of the intangible group as of December 31, 2004 is approximately 16.5 years. The weighted average useful life of the University of Chicago license is 19 years. Accumulated amortization for the Intellectual Property as of December 31, 2004 is \$251,761. The Company obtained a fairness opinion from an independent investment banking firm with respect to the Opexa acquisition. In accordance with FAS 142, the Board authorized an impairment analysis as of December 31, 2004. No impairment existed.

Results of Operations and Financial Condition

Revenue

Net Sales. We recorded no sales for the twelve months ended December 31, 2004 and 2003.

General and Administrative Expenses

Our general and administrative expenses increased during the twelve months ended December 31, 2004, to \$3,127,488 as compared to \$80,801 from January 22, 2003 ("Inception") to December 31, 2003. The increase in general and administrative expenses is due primarily to the start-up of operations which included the hiring of new personnel including employees and directors and scientific advisory board members. These individuals have agreements with the Company which provide for salary payments. The increase in operations is also attributable to the acquisition of Opexa Pharmaceuticals and the assumption of its operations and research and development programs. Also included are professional fees incurred from legal, accounting, and consulting services to secure and expand our license patent claims as well as license milestone fees to the University of Chicago. Such anticipated future expenses may include research and development, professional and consulting fees, and expenses associated with manufacturing facilities.

Research and Development Expense

Research and development expense increased to 632,621 for the twelve months ended December 31, 2004, compared to \$ -0 - from Inception to December 31, 2003. The increase is primarily related to the acquisition of Opexa Pharmaceuticals and its ongoing Phase I/II Clinical Trial for Tovaxin as well as the beginning of the Pre-Clinical Studies for our Cardiac and Diabetes Stem Cell Therapies.

Interest Expense

Interest will accrue at a rate of 15% per annum. The Notes are mandatorily exchangeable for securities at the earlier of an Equity Financing (as defined below) or upon maturity on November 30, 2005. The Notes and accrued interest are convertible at a purchase price equal to the weighted average gross offering price of the Company common stock or common stock equivalents issued in an Equity Financing. If no such Equity Financing occurs, the Notes and accrued interest are convertible at \$3.00 per share. An Equity Financing is defined as a Company raise of at least \$10,000,000 in one or a series of transactions of common stock or common stock equivalent securities prior to the maturity of the Notes. Interest will be paid in cash or at the option of the Company, in shares of common stock valued at \$3.00 per share.

Net loss

We had net loss for the year ended December 31, 2004, of \$4,620,664 or (\$.73) per share (basic and diluted), compared with a net loss of \$126,003, from Inception to December 31, 2003. The primary reason for the increase in net loss is due to the start-up of operations which included the hiring of new personnel including employees and directors and scientific advisory board members. These individuals have agreements with us which provide for salary payments. The increase in net loss is also attributable to the acquisition of Opexa Pharmaceuticals and the assumption of its operations and research and development programs. Also included are professional fees incurred from legal, accounting, and consulting services to secure and expand our license patent claims as well as license milestone fees to the University of Chicago. Such anticipated future expenses may include research and development, professional and consulting fees, and expenses associated with manufacturing facilities.

Liquidity and Capital Resources

Since our Inception, the Company has financed its operations from the sale of its debt and equity securities (including the issuance of its securities in exchange for goods and services). During the six months ended February 2005, the Company privately placed an aggregate principal amount of \$6.1 million of 15% Notes. The Notes are mandatorily exchangeable for securities at the earlier of an Equity Financing or upon maturity on November 30, 2005. The Notes and accrued interest are convertible at a purchase price equal to the weighted average gross offering price of the Company common stock or common stock equivalents issued in an Equity Financing. If no such Equity Financing occurs, the Notes and accrued interest are convertible at \$3.00 per share. As additional consideration for the purchase of Notes, the Company issued to investors an aggregate of 612,688 shares of Company common stock and, upon the earlier of an Equity Financing or maturity of the Notes, each investor will receive a one-year warrant. The number of shares of common stock underlying the warrant each investor will be issued will be determined by dividing the aggregate principal amount of the Notes by the exercise price. The exercise price will be equal to 50% of the weighted average gross offering price of Company equity issued in an Equity Financing or, if there is no Equity Financing, \$3.00.

As of December 31, 2004, the Company had cash of \$851,992. Giving effect to the closing of the sale of the Notes in February 2005, we believe we have sufficient cash to fund current operations through June 2005. The Company's current burn rate in the first quarter of 2005 was \$500,000 per month. As the operations of the Company ramp up, our burn rate is expected to increase to \$850,000 per month in the second through the fourth quarters of 2005. The Company believes that we will need a minimum of \$9,000,000 to fund our operations for fiscal 2005. This money will be used for research and development and for general and administrative expenses. The Company anticipates that it will need to engage in best efforts sales of its securities to raise needed working capital. Failure to raise necessary working capital will cause us to curtail operations.

Contractual Commitments

The Company has exercised its option with the Landlord to renew the lease on its executive offices and research facilities for a term of five years with an option for an additional five years at the then prevailing market rate. Management is waiting on final construction pricing in order to finalize the rental rate on the lease renewal.

In its acquisition of Opexa in November 2004, which acquisition was previously announced on a Current Report on Form 8-K filed on November 8, 2004, the Company assumed a lease on a 32,041 square foot office/warehouse facility used as Opexa's headquarters located in Houston, TX. This facility was deemed unsuitable for future expansion and a lease termination was negotiated by the Company which terminated the remaining eight year obligation and reduced the annual facility expenses by \$215,000. The lease termination required for a final monthly lease payment for February 2005, surrender of the security deposit in the amount of \$15,380, and a lease termination fee of \$56,763. The agreement also contains a mutual release provisions releasing both parties from any claims each may hold against the other under the lease dated on or about May 31, 2002.

Off-Balance Sheet Arrangements

As of December 31, 2004, the Company had no off-balance sheet arrangements.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") enacted Statement of Financial Accounting Standards 123--revised 2004 ("SFAS 123R"), Share-Based Payments, which replaces Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees. SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of income.

The accounting provisions of SFAS 123R will be effective for the Company for reporting periods beginning after December 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 1 of the Notes to Consolidated Financial Statements for the pro forma net income and net income per share amounts, for Fiscal 2003 through Fiscal 2004, as if the Company had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. The Company is evaluating the terms and structure of its current share based payments and does not expect the adoption to have a significant, adverse impact on the consolidated statements of income and net income per share as it relates to current granted options and warrants as of the date of the adoption.

In January 2003, the FASB issued Interpretation No. 46(R) ("FIN 46"), Consolidation of Variable Interest Entities. FIN 46 addresses consolidation by business enterprises of variable interest entities (formerly special purpose entities). In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of FIN 46 is not to restrict the use of variable interest entities, but to improve financial reporting by companies involved with variable interest entities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements are effective for the first period that ends after March 15, 2004; the Company elected to adopt the requirements effective for the reporting period ending December 31, 2004. The adoption of FIN 46 had no effect on the consolidated financial statements.

ITEM 7. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
PharmaFrontiers Corp.

(a development stage company)

The Woodlands, Texas

We have audited the accompanying consolidated balance sheet of PharmaFrontiers Corp., ("Pharma")(a development stage company), as of December 31, 2004 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended and the period from January 22, 2003 (Inception) through December 31, 2003 and 2004. These consolidated financial statements are the responsibility of Pharma's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Pharma as of December 31, 2004 and the consolidated results of its operations and its cash flows for the periods described in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Pharma will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, Pharma has suffered recurring losses from operations and has a negative working capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MALONE & BAILEY, PC

www.malone-bailey.com

Houston, Texas

February 23, 2005

PHARMAFRONTIERS CORP.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

December 31, 2004

Current Assets	
Cash	\$ 851,992
Prepaid expenses	94,337

Current assets	946,329
Intangible assets, net of \$251,761 of accumulated amortization	26,791,073
Property & equipment, net of \$184,318 of accumulated depreciation	341,984

Total Assets	\$ 28,079,386
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 1,188,617
Accrued expenses	233,831
Convertible notes, net of unamortized discount of \$2,619,754	608,221
Stock payable to convertible note holders	367,243
Notes payable	2,485,253

Total Current Liabilities	4,883,165

Commitments and Contingencies	-
Stockholders' Equity	
Convertible preferred stock, no par value, 10,000,000 shares authorized, none issued and outstanding	-
Common stock, \$.05 par value, 50,000,000 shares authorized, 10,059,838 shares issued and outstanding	502,992
Additional paid in capital	27,439,896
Deficit accumulated during the development stage	(4,746,667)

Total Stockholders' Equity	23,196,221

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 28,079,386
	=====

See accompanying summary of accounting policies and notes to consolidated financial statements

PHARMAFRONTIERS CORP.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF EXPENSES

Year ended December 31, 2004 and the Period from January 22, 2003 (Inception) through December 31, 2003 and 2004

	2004	Inception through 2003	Inception through 2004
	-----	-----	-----
General and administrative	\$ 3,127,488	\$ 80,801	\$ 3,208,289
Research and development	632,621	-	632,621
	-----	-----	-----
Net operating loss	(3,760,109)	(80,801)	(3,840,910)
Interest income	5,992	-	5,992
Other income	2,379	-	2,379
Interest expense	(868,926)	(45,202)	(914,128)
	-----	-----	-----
NET LOSS	\$ (4,620,664)	\$ (126,003)	\$ (4,746,667)
	=====	=====	=====
Basic and diluted loss per share	\$ (.73)	N/A	
Weighted average shares outstanding	6,309,145	N/A	

See accompanying summary of accounting policies and notes to consolidated financial statements

PHARMAFRONTIERS CORP.
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
From January 22, 2003 (Inception) through December 31, 2004

	Common Stock		Deficit Accumulated During the Development Stage	Total
	Shares	Amount		
Shares issued for cash	5,250,000	\$ 1,000	\$ -	\$ 1,000
Shares repurchased and cancelled	(1,706,250)	(325)	-	(325)
Discount relating to:				
- beneficial conversion feature	-	28,180	-	28,180
- warrants attached to debt	-	28,180	-	28,180
Net loss	-	-	(126,003)	(126,003)
Balances at December 31, 2003	3,543,750	57,035	(126,003)	(68,968)
Shares issued for:				
- cash	22,500	9,000	-	9,000
- services	2,065,000	849,000	-	849,000
- license	242,688	427,075	-	427,075
- reverse merger with Sportan	997,399	(147,733)	-	(147,733)
- acquisition of Opexa	2,500,000	23,750,000	-	23,750,000
- additional shares attached to convertible debt	161,000	288,366	-	288,366
- conversion of convertible notes	607,501	248,370	-	248,370
Shares cancelled	(80,000)	-	-	-
Offering costs relating to convertible debt	-	(365,909)	-	(365,909)
Discount relating to:				
- beneficial conversion feature	-	855,849	-	855,849
- warrants attached to debt	-	1,848,502	-	1,848,502
Option expense	-	123,333	-	123,333
Net loss	-	-	(4,620,664)	(4,620,664)
Balances at December 31, 2004	10,059,838	27,942,888	\$(4,746,667)	\$23,196,221
Less: par		502,992		
Additional paid in capital		\$27,439,896		

See accompanying summary of accounting policies and notes to consolidated financial statements

PHARMAFRONTIERS CORP.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year ended December 31, 2004 and the Period from January 22, 2003
(Inception) through December 31, 2003 and 2004

	2004 -----	Inception through 2003 -----	Inception through 2004 -----
Cash flows from operating activities			
Net loss	\$(4,620,664)	\$ (126,003)	\$(4,746,667)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock issued for services	849,000	-	849,000
Amortization of discount on notes payable due to warrants and beneficial conversion feature	753,812	42,755	796,567
Amortization of intangible assets	251,761	-	251,761
Depreciation	13,058	-	13,058
Option expense	123,333	-	123,333
Loss on disposition of fixed assets	457,122	-	457,122
Changes in:			
Accounts payable	58,670	137	58,807
Prepaid expenses	(38,950)	-	(38,950)
Accrued expenses	23,822	7,504	31,326
	-----	-----	-----
Net cash used in operating activities	(2,129,036)	(75,607)	(2,204,643)
	-----	-----	-----
Cash flows from investing activities			
Purchase of licenses	(232,742)	-	(232,742)
Purchase of property & equipment	(173,004)	-	(173,004)
	-----	-----	-----
Net cash used in investing activities	(405,746)	-	(405,746)
	-----	-----	-----
Cash flows from financing activities			
Common stock sold for cash	9,000	1,000	10,000
Common stock repurchased and canceled		(325)	(325)
Payments on license notes payable	(5,000)	-	(5,000)
Proceeds from debt	3,382,706	75,000	3,457,706
	-----	-----	-----
Net cash provided by financing activities	3,386,706	75,675	3,462,381
	-----	-----	-----
Net change in cash	851,924	68	851,992
Cash at beginning of year	68	-	-
	-----	-----	-----
Cash at end of year	\$ 851,992 =====	\$ 68 =====	\$ 851,992 =====

See accompanying summary of accounting policies and notes to consolidated financial statements

PHARMAFRONTIERS CORP.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Year ended December 31, 2004 and the Period from January 22, 2003
(Inception) through December 31, 2003 and 2004

	2004 -----	Inception through 2003 -----	Inception through 2004 -----
NON-CASH TRANSACTIONS			
Issuance of common stock for purchase of Opexa	\$23,750,000	\$ -	\$23,750,000
Issuance of common stock to Sportan shareholders	147,733	-	147,733
Issuance of common stock for University of Chicago license	427,075	-	427,075
Conversion of notes payable to common stock	248,370	-	248,370
Conversion of accounts payable to note payable	93,364	-	93,364
Discount on convertible notes relating to:			
- warrants	1,848,502	28,180	1,876,682
- beneficial conversion feature	855,849	28,180	884,029
- stock attached to notes	288,366	-	288,366

See accompanying summary of accounting policies and notes to consolidated financial statements

PHARMAFRONTIERS CORP.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

PharmaFrontiers Corp. ("Pharma") was incorporated in Texas on January 22, 2003 as a biopharmaceutical company engaged in developing autologous personalized cell therapies. During the development stage, Pharma acquired the worldwide license to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory Operated by the University of Chicago ("Argonne"). This is an exclusive license to a stem cell technology in which adult pluripotent stem cells are derived from monocytes obtained from the patient's own blood. (the "License"). A patent application was filed in November 2003, with the United States Patent and Trade Office regarding the technology involved in the License.

On October 7, 2004 Pharma entered into an agreement to acquire all of the outstanding stock of Opexa Pharmaceuticals, Inc. ("Opexa"). The agreement closed on November 5, 2004. A total of 2,500,000 shares of Pharma's common stock were exchanged for all the outstanding stock of Opexa's of which 250,000 shares is held in escrow and the balance of 2,250,000 was issued to Opexa's shareholders in December 2004. The acquisition was accounted for under the purchase method, where all of Opexa's assets are restated to their fair market value on the acquisition date, which approximated book value. The 2,500,000 shares of Pharma were valued at \$23,750,000 or \$9.50 per share, which represents their current value at the time. See note 12 for details.

Opexa holds rights to technology to diagnose and treat multiple sclerosis through modified autoreactive T cells and is currently in FDA Phase I/II human dose ranging clinical trials to evaluate its safety and effectiveness in treating multiple sclerosis.

Basis of presentation. The consolidated financial statements include the accounts of Pharma and its wholly-owned subsidiary, Opexa. Significant inter-company accounts and transactions have been eliminated.

Reclassifications. Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 consolidated financial statement presentation.

Use of Estimates in Financial Statement Preparation. The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents. For purposes of the statements of cash flows, cash equivalents include all highly liquid investments with original maturities of three months or less.

Long-lived Assets. Property and equipment are stated on the basis of historical cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Major renewals and improvements are capitalized, while minor replacements, maintenance and repairs are charged to current operations.

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Income Taxes. Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for consolidated financial reporting purposes and such amounts recognized for tax purposes, and are measured by applying enacted tax rates in effect in years in which the differences are expected to reverse.

Stock-Based Compensation. Pharma accounts for stock-based compensation under the intrinsic value method. Under this method, Pharma recognizes no compensation expense for stock options granted when the number of underlying shares is known and exercise price of the option is greater than or equal to the fair market value of the stock on the date of grant. The following table illustrates the effect on net loss and net loss per share if Pharma had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	2004	Inception through 2003	Inception through 2004
	-----	-----	-----
Net loss as reported	\$(4,620,664)	\$ (126,003)	\$(4,746,667)
Add: stock based compensation determined under intrinsic value-based method	123,333	-	123,333
Less: stock based compensation determined under fair value- based method	(153,364)	-	(153,364)
	-----	-----	-----
Pro forma net loss	\$(4,650,695)	\$ (126,003)	\$(4,776,698)
	=====	=====	=====
Basic and diluted net loss per common share:			
As reported	\$(.73)	N/A	N/A
Pro forma	\$(.74)	N/A	N/A

The weighted average fair value of the stock options granted during 2004 was \$3.09. Variables used in the Black-Scholes option-pricing model include (1) 2% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each year end, (3) expected volatility is from 0.1% to 796.30% and (4) zero expected dividends.

Basic and diluted net loss per share calculations are presented in accordance with Financial Accounting Standards Statement 128, and are calculated on the basis of the weighted average number of common shares outstanding during the year. They include the dilutive effect of common stock equivalents in years with net income. Basic and diluted loss per share is the same due to the absence of common stock equivalents.

Research and development. Research and development expenses include salaries and related employee expenses and consulting fees, facility costs, and laboratory costs. All costs for research and development activities are expensed as incurred. Pharma expenses the costs of licenses of patents and the prosecution of patents until the issuance of such patents and the commercialization of related products is reasonably assured.

Recently Issued Accounting Pronouncements:

In December 2004, the FASB issued SFAS No.123R, "Accounting for Stock-Based Compensation" SFAS No.123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No.123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No.123R, only certain pro forma disclosures of fair value were required. SFAS No.123R shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. While Pharma has issued options to employees recently, the adoption of this new accounting pronouncement is not expected to have a material impact on the consolidated financial statements of Pharma during the calendar year 2006.

Pharma does not expect the adoption of any other recently issued accounting pronouncements to have a significant impact on their consolidated financial position, results of operations or cash flow.

NOTE 2 - GOING CONCERN

As shown in the accompanying consolidated financial statements, Pharma incurred recurring net losses of, respectively, has an accumulated deficit of \$4,746,667 and a working capital deficit of. These conditions raise substantial doubt as to Pharma's ability to continue as a going concern. Management is trying to raise additional capital through sales of convertible debt and equity. The consolidated financial statements do not include any adjustments that might be necessary if Pharma is unable to continue as a going concern.

NOTE 3 - LICENSE AGREEMENT

In February 2004, Pharma entered into an agreement with the University of Chicago ("University") for the worldwide license to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory Operated by the University. In consideration for the license, Pharma paid the University

\$57,742 and agreed to issue 375,375 shares of its common stock. 187,688 shares valued at \$75,075 were issued on February 20, 2004. In December 2004, the License Agreement was amended granting Pharma an exclusive, non-transferable worldwide license to the University's stem cell technology. In consideration for the amendment, Pharma paid the University an additional \$175,000, issued the University 55,000 shares of common stock valued at \$352,000, bringing the total ownership of Pharma by the University to 242,688 shares, agreed to pay the University \$1,500,000 on the earlier of October 30, 2005 or upon the closing of a Pharma financing where proceeds are greater than \$10 million and agreed to issue the University shares of Pharma common stock, including the shares already issued, equal to 2.6% of the total outstanding number of shares after conversion of the 15% exchangeable convertible subordinated promissory notes upon the later of the First financing or November 30, 2005 and after issuance of any and all equity in the form of stock at the close of the first Financing.

In June of 2004, Pharma paid \$50,000 to The University of Texas MD Anderson Cancer Center for the option to negotiate a licensing agreement for the use of peripheral blood stem cells for cardiac regeneration. The option to negotiate the licensing agreement expired on September 21, 2004 and the non-refundable fee of \$50,000 was written off at the end of the fourth quarter.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31, 2004:

Description	Life	Amount
-----	-----	-----
University of Chicago license (see note 3)	19 years	3,051,706
Opexa intangible group (see note 12)	16 years	23,991,128

		27,042,834
Less: accumulated amortization		-----
		26,791,073
		=====

Amortization expense totaled \$251,761 and \$0 in fiscal 2004 and 2003, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

Description	Life	Amount
-----	-----	-----
Leasehold improvements	5 years	\$ 29,795
Computer equipment	3 years	50,669
Office furniture and equipment	3-5 years	224,218
Laboratory equipment	5-10 years	221,620

		526,302
Less: accumulated depreciation		(184,318)

		341,984
		=====

Depreciation expense totaled \$13,058 and \$0 in fiscal 2004 and 2003, respectively.

NOTE 6 - INCOME TAXES

Pharma uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. During fiscal 2004 and 2003, Pharma incurred net losses and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$3,000,000 at December 31, 2004, and will expire in the years 2023 through 2024.

At December 31, 2004, deferred tax assets consisted of the following:

Deferred tax assets	
Net operating losses	\$ 1,020,000
Less: valuation allowance	(1,020,000)

Net deferred tax asset	\$ -
	=====

NOTE 7 - THIRD PARTY CONVERTIBLE NOTES & STOCK PAYABLE TO NOTE HOLDERS

During 2004, Pharma issued convertible notes to investors totaling \$3,227,975. A description of the notes is as follows:

- o Maturity: The notes mature on November 30, 2005, at which time the principal amount of the notes will be mandatorily convertible into shares of common stock at the conversion price (as described below).
- o Interest: Interest will accrue at a rate of 15% per annum. If Pharma completes an Equity Financing prior to November 30, 2005, interest will be converted to common stock using a conversion price of the weighted average gross offering price of Pharma's common stock or common stock equivalents issued in the Equity Financing. If no such Equity Financing occurs, the accrued interest is convertible at \$3.00 per share.
- o Mandatory Exchange: In the event Pharma raises \$10,000,000 in one or a series of transactions by selling common stock or common stock equivalents prior to the maturity of the notes ("Equity Financing"), the principal amount of the notes will be automatically exchanged for the same type of securities issued in the Equity Financing. The exchange will occur upon the closing of the Equity Financing. The conversion price used for the mandatory exchange will be equal to the weighted average gross offering price of the common stock or common stock equivalents sold in the Equity Financing. Pharma will pay accrued interest on the closing date in cash or shares of common stock valued at the common stock offering price of the Equity Financing.

o Conversion and conversion price: In the event that there is no Equity Financing, the principal amount of the notes will automatically convert into common stock and Pharma will have the right to pay the accrued interest on notes in cash or with shares of common stock. The number of shares of common stock shall be determined by dividing the amount owed by \$3.00. The conversion price may be adjusted from time to time upon the occurrence of certain specified events.

o Additional shares: For each \$100,000 loaned to Pharma, 10,000 shares of common stock will be issued.

o Warrants: If the notes are mandatorily exchanged for Pharma securities, Pharma will issue investors one-year warrants. The number of warrants issued will be determined by dividing the aggregate principal amount of the notes by the exercise price. The exercise price of the warrants will be equal to 50% of the weighted average gross offering price of the common stock or common stock equivalents issued in the Equity Financing. If there is no Equity Financing prior to the maturity of the notes, Pharma will issue note holders warrants identical to those issued upon a mandatory exchange, except that the exercise price shall equal the conversion price.

The proceeds from the notes have been discounted for the relative fair value of the warrants, the stock, and beneficial conversion feature. All discounts will be amortized over the life of the notes. As of December 31, 2004, the stock has not been issued. A summary of the notes is as follows:

	Notes Payable	Stock Payable
	-----	-----
Gross proceeds from notes	\$ 3,227,975	\$ -
Less: Relative fair value of:		
stock payable to note holders	(655,608)	655,608
warrants	(1,782,510)	-
beneficial conversion feature	(789,857)	-
amounts already issued	-	(288,365)
Add: amortization of discounts	608,221	-
	-----	-----
Carrying amount of notes and stock on December 31, 2004	\$ 608,221	\$ 367,243
	=====	=====

As of December 31, 2004, Pharma had only issued 161,000 of the 322,978 additional common shares due to note holders. The relative fair value of the remaining 161,978 shares totaled \$367,243 and is accrued as of December 31, 2004.

NOTE 8 - NOTES PAYABLE

Notes payable to third parties consists of the following:

Note payable to a vendor for services; 12% interest; due in February 2005; unsecured	\$ 58,614
Note payable to individual; interest of 12%; due on demand; unsecured	34,750
Note payable to the University of Chicago; no interest; due earlier of Pharma raising \$10,000,000 in an Equity Financing or October 30, 2005; secured by license (see note 3 for details)	1,500,000
Stock payable to the University of Chicago equal to 2.6% of outstanding shares; no interest; due later of Pharma raising \$10,000,000 in an Equity Financing or November 30, 2005; secured by license (see note 3 for details)	891,889
Total	<u>\$2,485,253</u> <u>=====</u>

NOTE 9 - STOCK PURCHASE AGREEMENT

In June 2004, Pharma was acquired by Sportan United Industries, Inc. in a transaction accounted for as a reverse acquisition. Pharma's shareholders were issued 6,386,439 Sportan shares in exchange for 100 percent of the outstanding common shares of Pharma. Immediately following this transaction, Sportan changed its name to Pharma and 7,383,838 shares were outstanding.

NOTE 10 - EQUITY

In 2003, Pharma sold 5,250,000 shares of common stock for \$1,000 in cash. On April 2, 2003, 1,706,250 shares were reacquired for \$325 and canceled.

Additional contributions to capital of \$56,360 resulted from the discounted value to notes payable due to warrants and beneficial conversion features attached to convertible notes issued in 2003.

During 2004, 22,500 shares of common stock were sold for \$9,000 in cash.

During 2004, 2,065,000 shares of common stock valued at their then fair value of \$849,000 were issued to Pharma's employees and consultants for their services.

In February 2004, 187,688 shares of common stock valued at their then fair value of \$75,075 were issued to the University of Chicago per the terms of a license agreement. In December 2004, 55,000 shares of common stock valued at their then fair value of \$352,500 were issued to the University of Chicago per the terms of an amended license agreement. See note 3 for details.

In June 2004, 997,399 shares of common stock were issued for net liabilities of \$147,733 to Sportan's shareholders for the reverse merger with Sportan. See note 9 for details.

In November 2004, 2,500,000 shares of common stock valued at their then fair value of \$23,750,000 were issued to 30 accredited investors in connection with the acquisition of Opexa Pharmaceuticals, of which 250,000 shares are subject to an escrow agreement. See note 12 for details.

In December 2004, 161,000 shares of common stock with a relative fair value of \$288,366 were issued to note holders as their additional shares for their subscription investment in Pharma. See note 7 for details.

During 2004, 607,501 shares of common stock were issued to note holders for the conversion of \$248,370 of principal and interest from convertible notes.

In November 2004, 80,000 shares of common stock were cancelled pursuant to the terms of an employment separation agreement.

Offering costs of \$365,909 related to the convertible notes issued in 2004 that are mandatorily convertible were charged to additional paid in capital. Additional contributions to capital of \$2,827,684 relating to the discounted value to notes payable from warrants and beneficial conversion features attached to convertible notes issued in 2004. See note 7 for details.

NOTE 11 - STOCK OPTION PLAN

In 2004 Pharma adopted the 2004 Stock Option Plan ("the Plan"). The Plan provides for the granting of stock options to employees and consultants of Pharma.

Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Pharma employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Pharma employees and consultants. The Board of Directors has discretion to determine the number, term, exercise price and vesting of all grants. 150,000 warrants were granted to investors related to the convertible notes in 2003. 1,165,000 options were granted to employees and consultants in 2004 and 1,427,993 warrants were granted to investors related to the convertible notes in 2004.

Summary information regarding options is as follows:

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
	-----	-----	-----	-----
Year ended December 31, 2003:				
Granted	-	\$ -	150,000	\$.10
	-----	-----	-----	-----
Outstanding at December 31, 2003	-	-	150,000	.10
Year ended December 31, 2004:				
Granted	1,165,000	3.22	1,427,993	2.29
	-----	-----	-----	-----
Outstanding at December 31, 2004	1,165,000	\$ 3.22	1,577,993	\$ 2.08
	=====	=====	=====	=====

Options and warrants outstanding and exercisable as of December 31, 2004:

Exercise Price	Remaining Life	Options Outstanding	Options Exercisable	Warrants Outstanding	Warrants Exercisable
-----	-----	-----	-----	-----	-----
\$5.00	5 years	130,000	-	-	-
3.00	5 years	1,035,000	23,333	-	-
3.00	1 year	-	-	1,075,991	1,075,991
.10	1 year	-	-	502,002	502,002
		-----	-----	-----	-----
		1,165,000	23,333	1,577,993	1,577,993
		=====	=====	=====	=====

As of December 31, 2004, there were no options or warrants outstanding to purchase Opexa common stock.

NOTE 12 - PURCHASE OF OPEXA

On October 7, 2004 Pharma entered into an agreement to acquire all of the outstanding stock of Opexa. The agreement closed on November 5, 2004. Pharma issued Opexa shareholders 2,500,000 shares of Pharma's common stock for all of the outstanding stock of Opexa. 250,000 of the 2,500,000 shares were put in escrow. The acquisition was accounted for under the purchase method, where all of Opexa's assets are restated to their fair market value on the acquisition date, which approximated book value. The 2,500,000 shares of Pharma were valued at their then fair value of \$23,750,000 or \$9.50 per share.

Pharma acquired Opexa because Opexa holds rights to technology to diagnose and treat multiple sclerosis through modified autoreactive T cells and is currently in FDA Phase I/II human dose ranging clinical trials to evaluate its safety and effectiveness in treating multiple sclerosis.

The results of operations for Opexa from November 6, 2004 through December 31, 2004 are included in the Statement of Expenses and the Statement of Cash Flows.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Current assets	\$ 55,387
Property, plant and equipment, net	639,160
Intangible assets	23,991,128

Total assets acquired	24,685,675

Current liabilities	935,675

Total liabilities assumed	935,675

Net assets acquired	\$23,750,000
	=====

Of the \$23,991,128 of acquired intangible assets, the full amount is assigned to an inseparable group of patents and licenses that cannot function independently by themselves. The weighted average useful life of the intangible group as of December 31, 2004 is approximately 16.5 years.

The following shows the pro forma results of operations as though the purchase of Opexa had been completed as of January 1, 2003:

	2004	Inception through 2003
	-----	-----
General and administrative	\$ 4,289,023	\$ 1,482,810
Research and development	2,383,780	1,408,904
	-----	-----
Net operating loss	(6,672,803)	(2,891,714)
Interest income	11,649	21,406
Other income	28,008	602
Interest expense	(869,661)	(45,202)
	-----	-----
NET LOSS	\$ (7,502,807)	\$ (2,914,908)
	=====	=====
Basic and diluted loss per share	\$(1.19)	N/A
Weighted average shares outstanding	6,309,145	N/A

NOTE 13 - BOARD OF DIRECTORS AGREEMENTS

In April and May of 2004, Pharma entered into agreements with four individuals that will comprise Pharma's Board of Directors. The agreements resulted in the authorization of 200,000 shares of common stock and compensation of \$51,000 per year.

NOTE 14 - COMMITMENT AND CONTINGENCIES

In 2003 and part of 2004, Pharma's principal office was in the office of one of Pharma's shareholders pursuant to a verbal agreement on a rent-free month-to-month basis.

After purchasing Opexa, Pharma assumed an eighteen-month operating lease from Opexa for a research facility. The lease commenced in June 2003 and was due to expire in November 2004. Pharma extended the lease until March 31, 2005. Pharma has the option to exercise two 5 year renewals extending the lease to March 31, 2010 and if the second option is exercised, extending the lease to March 31, 2015. Basic rent expense charged to operations for fiscal 2004 and 2003 was \$14,234 and \$0 respectively.

Future minimum lease payments under the non-cancelable operating lease are \$21,351 for 2005 and none thereafter.

NOTE 15 - SUBSEQUENT EVENTS

On February 14, 2005 Pharma completed the second tranch of a private offering of 15% convertible promissory notes (the "notes") and issued notes with an aggregate principal amount of \$6.1 million. The notes are mandatorily exchangeable for common stock at the earlier of an "Equity Financing" (as defined below) or upon maturity on November 30, 2005. The notes and accrued interest are convertible at a conversion price equal to the weighted average gross offering price of the common stock or common stock equivalents issued in an Equity Financing. If no such Equity Financing occurs, the notes and accrued interest are convertible at \$3.00 per share on November 30, 2005. An "Equity Financing" is defined as Pharma raising at least \$10,000,000 in one or a series of transactions of common stock or common stock equivalents prior to the maturity of the notes. As additional consideration for the purchase of notes, Pharma issued to investors an aggregate of 612,468 shares of common stock and, upon the earlier of an Equity Financing or maturity of the notes, each investor will receive a one-year warrant to purchase shares of common stock. Each warrant will be exercisable for that number of shares of common stock equal to the principal amount of the note divided by the warrant's exercise price. The warrant's exercise price will be equal to 50% of the weighted average gross offering price of equity issued in an Equity Financing or, if there is no Equity Financing, \$3.00 per share.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES

In accordance with the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2004, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in our internal controls over financial reporting that occurred during the year ended December 31, 2004, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

Not Applicable.

PART III

ITEMS 9, 10, 11, AND 12

These items have been omitted in accordance with the general instructions to Form 10-KSB. The information required by these items will be included in the Company's definitive proxy or information statement to be filed no later than May 2, 2005, and are incorporated by reference in this annual report.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following exhibits of the Company are included herein.

Exhibit No. -----	Description -----
Exhibit 2.1	Stock Purchase Agreement (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form K filed June 4, 2004)
Exhibit 2.2	Merger Agreement (incorporated by reference to Exhibit 2.1 to the Company's Current Report on 8-K filed October 8, 2004)
Exhibit 3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit A to the Company's Definitive Information Statement filed on June 29, 2004)
Exhibit 3.2	By-laws
Exhibit 4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 2.3 to the Company's Registration Statement on Form 10-SB (File No. 000-25513), initially filed March 8, 1999
Exhibit 10.1	2004 Compensatory Stock Option Plan (incorporated by reference to Exhibit B to the Company's Definitive Information Statement filed on June 29, 2004)
Exhibit 10.2	Employment Agreement of David McWilliams (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB filed November 16, 2004)
Exhibit 10.3	Second Amended Employment Agreement of William Rouse (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed February 4, 2005)
Exhibit 10.4	Amended Employment Agreement of Warren C. Lau (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed February 4, 2005)
Exhibit 10.5	Director's Agreement of David McWilliams (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-QSB filed November 16, 2004)
Exhibit 10.6(1)	Director's Agreement of Robert H. Gow
Exhibit 10.7(1)	Director's Agreement of Paul Frison
Exhibit 10.8(1)	Director's Agreement of Tony Kamin
Exhibit 10.9	Director's Agreement of Brian Rodriguez (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB filed November 16, 2004)
Exhibit 10.10	Scientific Board Advisory Agreement of Yong Zhao (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB filed November 16, 2004)
Exhibit 10.11	Termination Settlement and Release Agreement with R. Wayne Fritzsche (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed February 4, 2005)
Exhibit 10.12(1)	Form of Note Agreement, Note and Form of Registration Agreement
Exhibit 10.13(1)	Form of Warrant Agreement
Exhibit 10.14(1)(2)	Amended and Restated License Agreement with Baylor College of Medicine
Exhibit 10.15(1)(2)	Amended and Restated License Agreement with University of Chicago
Exhibit 31.1(1)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2(1)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1(1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2(1)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed herewith.

(2) Portions of this exhibit have been omitted based on a request for confidential treatment pursuant to the Rule 24b-2 of the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Item 14. Principal Accounting Fees and Services

The aggregate fees billed by the principal accountant, Malone & Bailey PLLC, for the three quarterly reviews and related audit services for the period ending December 31, 2004 were \$81,575.

No other fees were billed for services by Malone & Bailey, PLLC other than those covered in the preceding paragraph. No professional fees were billed for financial information, tax advice or planning, or system design and implementation.

SIGNATURES

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

PHARMAFRONTIERS CORP.

By: /s/ DAVID B. MCWILLIAMS

David B. McWilliams, President and Chief Executive Officer

Date: April 14, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ DAVID B. MCWILLIAMS ----- David B. McWilliams	President and Chief Executive Officer	April 14, 2005
/s/ C. WILLIAM ROUSE ----- C. William Rouse	Chief Financial Officer and Principal Accounting Officer	April 14, 2005
/s/ ROBERT H. GOW ----- Robert H. Gow	Chairman of the Board	April 14, 2005
/s/ ANTHONY N. KAMIN ----- Anthony N. Kamin	Director	April 14, 2005
/s/ PAUL M. FRISON ----- Paul M. Frison	Director	April 14, 2005
/s/ BRIAN E. RODRIGUEZ ----- Brian E. Rodriguez	Director	April 14, 2005

DIRECTOR'S AGREEMENT

This Director's Agreement (this "Agreement") is made and entered into as of the 28th day of April 2004, (the "Effective Date"), by and between Robert H. Gow (hereinafter referred to as "Director") and PharmaFrontiers Corp.(together with any successor to the business of PharmaFrontiers Corp. by merger, consolidation or other form of business combination hereinafter referred to as "PharmaFrontiers").

W I T N E S S E T H:

WHEREAS, the shareholders of PharmaFrontiers wish to elect Director to serve on the Board of Directors (the "Board") of PharmaFrontiers, and Director has agreed to serve at the pleasure of the shareholders and on the terms and conditions below; and

WHEREAS, PharmaFrontiers' success requires the protection of its intellectual property, proprietary information and goodwill;

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. Nomination as Director

PharmaFrontiers agrees to nominate Director for election by the shareholders of PharmaFrontiers as director of PharmaFrontiers, and, upon such election, Director agrees that Director will devote the amount of time, skill, and efforts during the term of this Agreement to the affairs of PharmaFrontiers as may be reasonably requested and required of Director and in accordance with the duties and obligations imposed upon directors of corporations by applicable law. PharmaFrontiers agrees to recommend to the Board that Director be appointed as Chairman of PharmaFrontiers immediately upon his election to the Board. Director agrees to serve as Chairman and to perform such duties and obligations of the Chairman as are set forth in the bylaws of PharmaFrontiers or as are assigned to the Chairman by the Board.

2. Compensation

As compensation for serving as a member of the Board of PharmaFrontiers, PharmaFrontiers agrees upon the execution and delivery of this Agreement to PharmaFrontiers, to issue to Director Eighty Thousand (80,000) shares of the common stock of PharmaFrontiers. In addition, PharmaFrontiers will pay Director the sum of \$1,000.00 per month for each month Director serves as a Director of PharmaFrontiers, which shall compensate Director for his expenses in attending and participating in meetings of the Board. All compensation paid Director shall be subject to such payroll and withholding deductions as may be required by law or the policies of PharmaFrontiers.

3. Confidential and Proprietary Information; Documents

3.1 PharmaFrontiers shall provide Director with information deemed secret and confidential by PharmaFrontiers. Such secret or confidential information or know-how of PharmaFrontiers (referred to collectively as "Confidential Information") shall include, without limitation, the following: the status and plans for research and development; materials, cells, tissues, and other biological samples and specimens; cell banking methods, apparatus, and services; pending and planned patent applications (until published by the Patent Office); invention disclosures; research and technical data and information; methods of creating, preparing, and using stem cells and other biological materials; license, sublicense, and other agreements relating to intellectual property rights; PharmaFrontiers' plans; customer or contact information; contributor information; strategies, costs, prices, uses, applications of products and services; results of and data from investigations or experiments; all apparatus, products, processes, compositions, samples, formulas, computer programs, pricing policy, financial information, and methods of doing business; policy and/or procedure manuals, training and recruiting procedures; accounting procedures; the status and content of PharmaFrontiers' contracts with its contributors, clients, and customers; PharmaFrontiers' business philosophy, and servicing methods and techniques; all at any time used, developed, or investigated by PharmaFrontiers, before or during the term of this Agreement, which are not generally available to the public or which are maintained as confidential by PharmaFrontiers.

3.2 Director recognizes and acknowledges that Director will have access to certain information of PharmaFrontiers that is confidential and proprietary and constitutes valuable and unique property of PharmaFrontiers. Director agrees that Director will not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, except in pursuance of Director's duties on behalf of PharmaFrontiers, its successors, assigns or nominees, or as required by the order of any tribunal having jurisdiction or by mandatory provisions of applicable law, any Confidential Information or know-how of PharmaFrontiers without the prior written consent of the Board of PharmaFrontiers. Director further agrees to maintain in confidence any confidential information of third parties received as a result of Director's relationship with PharmaFrontiers.

3.3 Director further agrees to deliver to PharmaFrontiers promptly after his resignation, removal or failure to be nominated or elected as a member of the Board, all biological materials correspondence, memoranda, notes, records, drawings, sketches, plans, customer, client and/or contributor lists, product compositions, or other documents and all copies thereof (all of which are hereafter referred to as the "Documents"), made, composed or received by Director, solely or jointly with others, and which are in Director's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of PharmaFrontiers.

3.4 Director further agrees that Director will not, during the term of this Agreement, and on behalf of PharmaFrontiers accept or agree to receive from persons not employed by PharmaFrontiers, any confidential information not belonging to PharmaFrontiers, unless prior to such receipt or acceptance a valid agreement has been executed between PharmaFrontiers and the disclosing party that states that PharmaFrontiers will not be in a confidential relationship with the disclosing party. Director further agrees that Director will not use in violation of any confidentiality obligation binding upon Director any confidential information belonging to Director's employer or former employer, or any other third parties.

3.5 In the event of a breach or threatened breach of any of the provisions of Section 4, or any breach by Director of his fiduciary obligation to PharmaFrontiers and its shareholders, PharmaFrontiers shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Director from using or disclosing, for Director's benefit or the benefit of others, in whole or in part, any Confidential Information, including but not limited to the Confidential Information which such Documents contain, constitute, or embody. Director further agrees that any breach or threatened breach of any of the provisions of Section 4 would cause irreparable injury to PharmaFrontiers for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting PharmaFrontiers from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

4. Noncompetition/No-Hire Agreement

4.1 Director agrees that, from the Effective Date until a period of one (1) year following the date of his resignation, removal or failure to be nominated or elected as a member of the Board, (the "Noncompetition Period"), Director will not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, corporate officer, director, or in any other individual or representative capacity, engage or participate in any "Competitive Business" anywhere in the United States of America, Canada or the European Union (the "Noncompetition Territory"). As used herein, a "Competitive Business" is defined as any business, including those relating to stem cells or cell banking, which provides the same or substantially the same products, services or licenses to intellectual property rights, in whole or in part, as are provided by PharmaFrontiers during the term of this Agreement.

4.2 Director further agrees that during the Noncompetition Period and within the Noncompetition Territory Director will not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, corporate officer, director, or in any other individual or representative capacity, call on, solicit, recruit, or attempt to call on, solicit, or recruit, or attempt to hire any of the employees of PharmaFrontiers, regardless of whether for the benefit of the Director or for any other person, firm, or corporation.

4.3 Director shall not during the Noncompetition Period and within the Noncompetition Territory, either directly or indirectly (i) make known to any Competitive Business the names and addresses of any of PharmaFrontiers' customers or contacts or any other information pertaining to such persons or businesses or (ii) call on, solicit, or take away, or attempt to call on, solicit or take away any of the customers of PharmaFrontiers with whom Director became acquainted during Director's service as a member of PharmaFrontiers' Board, regardless of whether for the benefit of the Director or for any other person, firm or corporation.

4.4 Director agrees that this Section is ancillary to this Agreement, and Director acknowledges that the consideration given by PharmaFrontiers for this Agreement includes PharmaFrontiers' agreement to provide to the Director access to the Confidential Information. Further, the existence of any claim or cause of action of Director against PharmaFrontiers or any officer, director, or employee of PharmaFrontiers, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by PharmaFrontiers of Director's covenants contained in this Agreement. In addition, this Agreement shall continue to be binding upon Director in accordance with its terms, notwithstanding the termination of this Agreement.

4.5 Director agrees that Director's breach or violation, or threat thereof, of this covenant not to compete shall entitle PharmaFrontiers, as a matter of right, to an injunction without the necessity of posting bond, issued by any court of competent jurisdiction, restraining any further or continued breach or violation of this covenant. Such right to an injunction shall be cumulative and in addition to, and not in lieu of, any other remedies to which PharmaFrontiers may show itself justly entitled. Further, during any period in which Director is in breach of this covenant not to compete, the time period of this covenant shall be extended for an amount of time that Director is in breach.

5. Inventions and Other Intellectual Property

5.1 Director agrees to hold in complete trust for the benefit of PharmaFrontiers, and to disclose promptly and fully to PharmaFrontiers in writing, and hereby assigns, and binds Director's heirs, executors, administrators, and all legal representatives to assign, to PharmaFrontiers any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, biological materials, and other developments (all of the above are collectively referred to as the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of this Agreement, whether during or outside of usual working hours and whether on PharmaFrontiers' premises or not, which relate in any manner to the past, present or anticipated business of PharmaFrontiers. The parties agree that, if Director is an inventor as determined by U.S. patent law for any invention, Director shall be named as an inventor in connection with any patent application therefor. Any and all such Developments shall be the sole and exclusive property of PharmaFrontiers, whether patentable, copyrightable, or neither, and Director agrees that Director will assist and fully cooperate in every way, at PharmaFrontiers' expense, in securing, maintaining, and enforcing, for the benefit of PharmaFrontiers or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries. Director acknowledges and agrees that any and all such Developments conceived, created, or authored by him is a "work made for hire," as defined by the federal copyright laws, and therefore all copyrights in and to such works are and will be owned by PharmaFrontiers. To the extent that Director authors any copyrightable work in any medium during the term of this Agreement which relates or pertains in any way to PharmaFrontiers or any of the operations or activities of either and which was is held not a work made for hire, Director hereby assigns all right, title, and interest, including but not limited to all rights of copyright, in and to such works to PharmaFrontiers. Within six months following the termination of this Agreement, and without limiting the generality of the foregoing, any Development of the Director relating to any PharmaFrontiers subject matter on which Director worked or was informed during the term of this Agreement shall be conclusively presumed to have been conceived and made prior to the termination of this Agreement (unless the Director clearly proves that such Development was conceived and made following the termination of this Agreement), and shall accordingly belong, and be assigned, to PharmaFrontiers and shall be subject to this Agreement.

5.2 Without limiting the foregoing, Director agrees at the request of PharmaFrontiers (but without additional compensation from PharmaFrontiers during Director's employment by PharmaFrontiers) to execute any and all papers and perform all lawful acts which PharmaFrontiers deems necessary for the preparation, filing, prosecution, and maintenance of applications for United States and foreign letters patent, or for United States and foreign copyrights, on the Developments, and to execute such instruments as are necessary or convenient to assign to PharmaFrontiers, its successors, assigns or nominees, all of the Director's right, title, and interest in the Developments and the like, so as to establish, maintain or perfect, in PharmaFrontiers, its successors, assigns or nominees, the entire right, title, and interest to the Developments, and also to execute any instruments necessary or which PharmaFrontiers may deem desirable in connection with any continuation, renewal or reissue thereof, or in the conduct of any proceedings or litigation in regard thereto.

5.3 All expenses incurred by the Director by reason of the performance of any of the obligations set forth in this Section on Inventions shall be borne by PharmaFrontiers. Should the Director's assistance be requested by PharmaFrontiers after termination of this Agreement, PharmaFrontiers would compensate the Director at a reasonable rate.

6. Conflicts of Interest

6.1 In keeping with Director's fiduciary duties to PharmaFrontiers, Director agrees that Director shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Director agrees that Director shall promptly disclose to the Board of PharmaFrontiers any facts which might involve any reasonable possibility of a conflict of interest as PharmaFrontiers is currently and in the future configured and practicing business. Director shall maintain the highest standards of conduct, and shall not do anything likely to injure the reputation or goodwill of PharmaFrontiers, or embarrass or otherwise generate adverse publicity for or bring unwanted attention to PharmaFrontiers.

6.2 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect PharmaFrontiers or any of its subsidiaries or affiliates, involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Director would or might arise, and which should be reported immediately by Director to an officer of PharmaFrontiers, include, without limitation, the following: (a) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which PharmaFrontiers does business; (b) misuse of information or facilities to which Director has access in a manner which will be detrimental to PharmaFrontiers' interest; (c) disclosure or other misuse of information of any kind obtained through the Director's connection with PharmaFrontiers; (d) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by PharmaFrontiers; (e) the appropriation to the Director or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that PharmaFrontiers would be interested; and (f) the ownership, directly or indirectly, of a material interest in an enterprise in competition with PharmaFrontiers or its dealers and distributors or acting as a director, officer, partner, consultant, Director or agent of any enterprise which is in competition with PharmaFrontiers or its dealers or distributors.

7. Prior Discoveries

Director has no unpatented inventions and discoveries made or conceived by Director prior to the Effective Date that relate to stem cell isolation, identification and/or expansion and/or cell banking.

8. Remedies

Director and PharmaFrontiers agree that, because damages at law for any breach or nonperformance of this Agreement by Director, while recoverable, are and will be inadequate, this Agreement may be enforced in equity by specific performance, injunction, accounting or otherwise.

9. Miscellaneous

9.1 This Agreement is made and entered into as of the Effective Date and the rights and obligations of the parties hereto shall be binding upon the heirs and legal representatives of the Director and the successors and assigns of PharmaFrontiers. This Agreement may be assigned by PharmaFrontiers (including assignment by operation of law to any successor to the business of PharmaFrontiers by merger, consolidation or other business combination) without the consent of Director but is personal to the Director and no rights, duties, and obligations of Director hereunder may be assigned without the consent of PharmaFrontiers or its assigns, which may be granted or withheld in its sole discretion.

9.2 No waiver or non-action with respect to any breach by the other party of any provision of this Agreement, nor the waiver or non-action with respect to any breach of the provisions of similar agreements with other Directors shall be construed to be a waiver of any succeeding breach of such provision, or as a waiver of the provision itself.

9.3 Should any portions hereof be held to be invalid or wholly or partially unenforceable, such holding shall not invalidate or void the remainder of this Agreement. The portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable, or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if it had never been included herein.

9.4 Director's obligations under this Agreement to PharmaFrontiers shall survive Director's resignation, removal or failure to be nominated or elected as a member of the Board of PharmaFrontiers.

9.5 This Agreement supersedes, replaces and merges any and all prior and contemporaneous understandings, representations, agreements and discussions relating to the same or similar subject matter as that of this Agreement between Director and PharmaFrontiers and constitutes the sole and entire agreement between the Director and PharmaFrontiers with respect to the subject matter of this Agreement.

9.6 The laws of the State of Texas, excluding any conflicts of law rule or principle that might otherwise refer to the substantive law of another jurisdiction, will govern the interpretation, validity and effect of this Agreement without regard to the place of execution or the place for performance thereof, and PharmaFrontiers and Director agree that the state and federal courts in Harris County, Texas, shall have personal jurisdiction and venue over PharmaFrontiers and Director to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

9.7 All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when mailed by registered mail or certified mail, return receipt requested, as follows:

If to PharmaFrontiers, to:

Mr. Warren Lau
PharmaFrontiers Corp.
10211 Silver Leafe Lane
Tomball, Texas 77375

If to Director, to:

Mr. Robert H. Gow
5 Woods Edge Lane
Houston, Texas 77024

or to such other addresses as either party may designate by notice to the other party hereto in the manner specified in this section.

9.8 This Agreement may not be changed or terminated orally, and no change, termination or waiver of this Agreement or of any of the provisions herein contained shall be binding unless made in writing and signed by both parties, and in the case of PharmaFrontiers, by an authorized officer of PharmaFrontiers. Any change or changes, from time to time, in Director's compensation shall not be, nor be deemed to be, a change, termination or waiver of this Agreement or of any of the provisions herein contained.

PHARMAFRONTIERS CORP. DIRECTOR

By: */s/Warren C. Lau*

 Warren C. Lau

By: */s/Robert H. Gow*

 Robert H. Gow

DIRECTOR'S AGREEMENT

This Director's Agreement (this "Agreement") is made and entered into as of the 23rd day of November, 2004, (the "Effective Date"), by and between Paul Frison (hereinafter referred to as "Director") and PharmaFrontiers Corp. (together with any successor to the business of PharmaFrontiers Corp. by merger, consolidation or other form of business combination hereinafter referred to collectively as "PharmaFrontiers").

WITNESSETH:

WHEREAS, the shareholders of PharmaFrontiers wish to elect Director to serve on the Board of Directors (the "Board") of PharmaFrontiers, and Director has agreed to serve at the pleasure of the shareholders and on the terms and conditions below; and

WHEREAS, PharmaFrontiers' success requires the protection of its intellectual property, proprietary information and goodwill;

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. Appointment as Director

PharmaFrontiers shall appoint Director to the Board of PharmaFrontiers, and, upon such appointment, Director agrees that Director will devote the amount of time, skill, and efforts during the term of this Agreement to the affairs of PharmaFrontiers as may be reasonably requested and required of Director and in accordance with the duties and obligations imposed upon directors of corporations by applicable law.

2. Compensation

As compensation for serving as a member of the Board of PharmaFrontiers, PharmaFrontiers agrees upon the execution and delivery of this Agreement to PharmaFrontiers, to grant to Director an option to purchase up to 20,000 shares of the common stock of PharmaFrontiers, the terms of which are set forth in the Incentive Stock Option Agreement attached hereto as Exhibit "A" (the "Option Agreement"). In addition, PharmaFrontiers will grant to Director a five-year option to purchase up to 15,000 shares of common stock of PharmaFrontiers at an exercise price of Market price per share upon each re-election to the Board of PharmaFrontiers at each annual shareholders meeting, pursuant to terms similar to those set forth in the Option Agreement. The Company shall pay Director the sum of \$1,000 for each Board meeting attended in person, and \$500 for each Board meeting attended by telephony.

3. Confidential and Proprietary Information; Documents

3.1 PharmaFrontiers shall provide Director with information deemed secret and confidential by PharmaFrontiers. Such secret or confidential information or know-how of PharmaFrontiers (referred to collectively as "Confidential Information") shall include, without limitation, the following: the status and plans for research and development; materials, cells, tissues, and other biological samples and specimens; cell banking methods, apparatus, and services; pending and planned patent applications (until published by the Patent Office); invention disclosures; research and technical data and information; methods of creating, preparing, and using stem cells and other biological materials; license, sublicense, and other information; contributor information; strategies, costs, prices, uses, applications of products and services; results of and data from investigations or experiments; all apparatus, products, processes, compositions, samples, formulas, computer programs, pricing policy, financial information, and methods of doing business; policy and/or procedure manuals, training and recruiting procedures; accounting procedures; the status and content of PharmaFrontiers' contracts with its contributors, clients, and customers; PharmaFrontiers' business philosophy, and servicing methods and techniques; all at any time used, developed, or investigated by PharmaFrontiers, before or during the term of this Agreement, which are not generally available to the public or which are maintained as confidential by PharmaFrontiers.

3.2 Director recognizes and acknowledges that Director will have access to certain information of PharmaFrontiers that is confidential and proprietary and constitutes valuable and unique property of PharmaFrontiers. Director agrees that Director will not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, except in pursuance of Director's duties on behalf of PharmaFrontiers, its successors, assigns or nominees, or as required by the order of any tribunal having jurisdiction or by mandatory provisions of applicable law, any Confidential Information or know-how of PharmaFrontiers without the prior written consent of the Board of PharmaFrontiers. Director further agrees to maintain in confidence any confidential information of third parties received as a result of Director's relationship with PharmaFrontiers.

3.3 Director further agrees to deliver to PharmaFrontiers promptly after his resignation, removal or failure to be nominated or elected as a member of the Board, all biological materials correspondence, memoranda, notes, records, drawings, sketches, plans, customer, client and/or contributor lists, product compositions, or other documents and all copies thereof (all of which are hereafter referred to as the "Documents"), made, composed or received by Director, solely or jointly with others, and which are in Director's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of PharmaFrontiers.

3.4 Director further agrees that Director will not, during the term of this Agreement, and on behalf of PharmaFrontiers accept or agree to receive from persons not employed by PharmaFrontiers, any confidential information not belonging to PharmaFrontiers, unless prior to such receipt or acceptance a valid agreement has been executed between PharmaFrontiers and the disclosing party that states that PharmaFrontiers will not be in a confidential relationship with the disclosing party. Director further agrees that Director will not use in violation of any confidentiality obligation binding upon Director any confidential information belonging to Director's employer or any former employer, or any other third parties.

3.5 In the event of a breach or threatened breach of any of the provisions of Section 4, or any breach by Director of his fiduciary obligation to PharmaFrontiers and its shareholders, PharmaFrontiers shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Director from using or disclosing, for Director's benefit or the benefit of others, in whole or in part, any Confidential Information, including but not limited to the Confidential Information which such Documents contain, constitute, or embody. Director further agrees that any breach or threatened breach of any of the provisions of Section 4 would cause irreparable injury to PharmaFrontiers for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting PharmaFrontiers from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

4. Director's Current Position as President and CEO of Houston Technology Center

4.1 Notwithstanding anything herein, all parties understand and agree that Director may conduct all normal functions, contacts, relations and support of any companies and activities in which he is normally engaged, as President and CEO of the Houston Technology Center.

5. Inventions and Other Intellectual Property

5.1 Director agrees to hold in complete trust for the benefit of PharmaFrontiers, and to disclose and fully to PharmaFrontiers in writing, and hereby assigns, and binds Director's heirs, executors, administrators, and all legal representatives to assign, to PharmaFrontiers any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, biological materials, and other developments (all of the above are collectively referred to as the "Developments") conceived, made, discovered or developed by him, solely or jointly with others, during the term of this Agreement, whether during or outside of usual working hours and whether on PharmaFrontiers' premises or not, which relate in any manner to the past, present or anticipated business of PharmaFrontiers. The parties agree that, if Director is an inventor as determined by U.S. patent law for any invention, Director shall be named as an inventor in connection with any patent application therefore. Any and all such Developments shall be the sole and exclusive property of PharmaFrontiers, whether patentable, copyrightable, or neither, and Director agrees that Director will assist and fully cooperate in every way, at PharmaFrontiers' expense, in securing, maintaining, and enforcing, for the benefit of PharmaFrontiers or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries. Director acknowledges and agrees that any and all such Developments conceived, created, or authored by him is a "work made for hire," as defined by the federal copyright laws, and therefore all copyrights in and to such works are and will be owned by PharmaFrontiers. To the extent that Director authors any

copyrightable work in any medium during the term of this Agreement which relates or pertains in any way to PharmaFrontiers or any of the operations or activities of either and which was is held not a work made for hire, Director hereby assigns all right, title, and interest, including but not limited to all rights of copyright, in and to such works to PharmaFrontiers. Within six months following the termination of this Agreement, and without limiting the generality of the foregoing, any Development of the Director relating to any PharmaFrontiers subject matter on which Director worked or was informed during the term of this Agreement shall be conclusively presumed to have been conceived and made prior to the termination of this Agreement (unless the Director clearly proves that such Development was conceived and made following the termination of this Agreement), and shall accordingly belong, and be assigned to PharmaFrontiers and shall be subject to this Agreement.

5.2 Without limiting the foregoing, Director agrees at the request of PharmaFrontiers (but without additional compensation from PharmaFrontiers during Director's employment by PharmaFrontiers) to execute any and all papers and perform all lawful acts which PharmaFrontiers deems necessary for the preparation, filing, prosecution, and maintenance of applications for United States and foreign letters patent or for United States and foreign copyrights, on the Developments, and to execute such instruments as are necessary or convenient to assign to PharmaFrontiers, its successors, assigns or nominees, all of the Director's right, title, and interest in the Developments and the like, so as to establish, maintain or perfect, in PharmaFrontiers, its successors, assigns or nominees, the entire right, title, and interest to the Developments, and also to execute any instruments necessary or which PharmaFrontiers may deem desirable it connection with any continuation, renewal or reissue thereof, or in the conduct of any proceedings or litigation in regard thereto.

5.3 All expenses incurred by the Director by reason of the performance of any of the obligations set forth in this Section on Inventions shall be borne by PharmaFrontiers. Should the Director's assistance be requested by PharmaFrontiers after termination of this Agreement, PharmaFrontiers would compensate the Director at a reasonable rate.

6. Conflicts of Interest

6.1 In keeping with Director's fiduciary duties to PharmaFrontiers, Director agrees that Director shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Director agrees that Director shall promptly disclose to the Board of PharmaFrontiers any facts which might involve any reasonable possibility of a conflict of interest as PharmaFrontiers is currently and in the future configured and practicing business. Director shall maintain the highest standards of conduct, and shall not do anything likely to injure the reputation or goodwill of PharmaFrontiers, or embarrass or otherwise generate adverse publicity for or bring unwanted attention to PharmaFrontiers.

6.2 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect PharmaFrontiers or any of its subsidiaries or affiliates, involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Director would or might arise, and which should be reported immediately by Director to an officer of PharmaFrontiers, include, without limitation, the following: (a) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which PharmaFrontiers does business; (b) misuse of information or facilities to which Director has access in a manner which will be detrimental to PharmaFrontiers' interest; (c) disclosure or other misuse of information of any kind obtained through the Director's connection with PharmaFrontiers; (d) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by PharmaFrontiers; (e) the appropriation to the Director or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that PharmaFrontiers would be interested; and (f) the ownership, directly or indirectly, of a material interest in an enterprise in competition with PharmaFrontiers or its dealers and distributors or acting as a director, officer, partner, consultant, Director or agent of any enterprise which is in competition with PharmaFrontiers or its dealers or distributors.

7. Prior Discoveries

Director has no unpatented inventions and discoveries made or conceived by Director prior to the Effective Date that relate to stem cell isolation, identification and/or expansion and/or cell banking.

8. Remedies

Director and PharmaFrontiers agree that, because damages at law for any breach or nonperformance of this Agreement by Director, while recoverable, are and will be inadequate, this Agreement may be enforced in equity by specific performance, injunction, accounting or otherwise.

9. Miscellaneous

9.1 This Agreement is made and entered into as of the Effective Date and the rights and obligations of the parties hereto shall be binding upon the heirs and legal representatives of the Director and the successors and assigns of PharmaFrontiers. This Agreement may be assigned by PharmaFrontiers (including assignment by operation of law to any successor to the business of PharmaFrontiers by merger, consolidation or other business combination) without the consent of Director but is personal to the Director and no rights, duties, and obligations of Director hereunder may be assigned without the consent of PharmaFrontiers or its assigns, which may be granted or withheld in its sole discretion.

9.2 No waiver or non-action with respect to any breach by the other party of any provision of this Agreement, nor the waiver or non-action with respect to any breach of the provisions of similar agreements with other Directors shall be construed to be a waiver of any succeeding breach of such provision, or as a waiver of the provision itself.

9.3 Should any portions hereof be held to be invalid or wholly or partially unenforceable, such holding shall not invalidate or void the remainder of this Agreement. The portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable, or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as it if had never been included herein.

9.4 Director's obligations under this Agreement to PharmaFrontiers shall survive Director's resignation, removal or failure to be nominated or elected as a member of the Board of PharmaFronteirs.

9.5 This Agreement supersedes, replaces and merges any and all prior and contemporaneous understandings, representations, agreements and discussions relating to the same or similar subject matter as that of this Agreement between Director and PharmaFronteirs and constitutes the sole and entire agreement between the Director and PharmaFrontiers with respect to the subject matter of this Agreement.

9.6 The laws of the State of Texas, excluding any conflicts of law rule or principle that might otherwise refer to the substantive law of another jurisdiction, will govern the interpretation, validity and effect of this Agreement without regard to the place of execution or the place for performance thereof, and PharmaFronteirs and Director agree that the state and federal courts in Harris county, Texas, shall have personal jurisdiction and venue over PharmaFrontiers and Director to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

9.7 All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have given when mailed by registered mail or certified mail, return receipt requested, as follows:

If to PharmaFronteirs, to:

Mr. David McWilliams
PharmaFrontiers Corp.
835 Greens Parkway,
Suite #150 Houston, TX 77067

If to Director, to:

Paul Frison
102 N. Wynden Estates Court
Houston, TX 77056

or to such other addresses as either party may designate by notice to the other party hereto in the manner specified in this section.

9.8 This Agreement may not be changed or terminated orally, and no change, termination or waiver of this Agreement or of any of the provisions herein contained shall be binding unless made in writing and signed by both parties, and in the case of PharmaFrontiers, by an authorized officer of PharmaFrontiers. Any change or changes, from time to time, in Director's compensation shall not be deemed to be, a change, termination or waiver of this Agreement or of any of the provisions herein contained.

IN WITNESS WHEREOF, the undersigned have hereby caused this Agreement to be effective as of the date first written above.

PharmaFrontiers Corp., a Texas Corporation

By: /s/ David B. McWilliams

David McWilliams, President

By: /s/Paul Frison

Paul Frison

EXHIBIT "B"

DIRECTOR'S AGREEMENT

This Director's Agreement (this "Agreement") is made and entered into as of the 7th day of December, 2004, (the "Effective Date"), by and between Tony Kamin (hereinafter referred to as "Director") and PharmaFrontiers Corp. (together with any successor to the business of PharmaFrontiers Corp. by merger, consolidation or other form of business combination hereinafter referred to collectively as "PharmaFrontiers").

WITNESSETH:

WHEREAS, the shareholders of PharmaFrontiers wish to elect Director to serve on the Board of Directors (the "Board") of PharmaFrontiers, and Director has agreed to serve at the pleasure of the shareholders and on the terms and conditions below; and

WHEREAS, PharmaFrontiers' success requires the protection of its intellectual property, proprietary information and goodwill;

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. Appointment as Director

PharmaFrontiers shall appoint Director to the Board of PharmaFrontiers, and, upon such appointment, Director agrees that Director will devote the amount of time, skill, and efforts during the term of this Agreement to the affairs of PharmaFrontiers as may be reasonably requested and required of Director and in accordance with the duties and obligations imposed upon directors of corporations by applicable law.

2. Compensation

As compensation for serving as a member of the Board of PharmaFrontiers, PharmaFrontiers agrees upon the execution and delivery of this Agreement to PharmaFrontiers, to grant to Director an option to purchase up to 20,000 shares of the common stock of PharmaFrontiers, the terms of which are set forth in the Incentive Stock Option Agreement attached hereto as Exhibit "A" (the "Option Agreement"). In addition, PharmaFrontiers will grant to Director a five-year option to purchase up to 15,000 shares of common stock of PharmaFrontiers at an exercise price of Market price per share upon each re-election to the Board of PharmaFrontiers at each annual shareholders meeting, pursuant to terms similar to those set forth in the Option Agreement. The Company shall pay Director the sum of \$1,000 for each Board meeting attended in person, and \$500 for each Board meeting attended by telephony.

3. Confidential and Proprietary Information; Documents

3.1 PharmaFrontiers shall provide Director with information deemed secret and confidential by PharmaFrontiers. Such secret or confidential information or know-how of PharmaFrontiers (referred to collectively as "Confidential Information") shall include, without limitation, the following: the status and plans for research and development; materials, cells, tissues, and other biological samples and specimens; cell banking methods, apparatus, and services; pending and planned patent applications (until published by the Patent Office); invention disclosures; research and technical data and information; methods of creating, preparing, and using stem cells and other biological materials; license, sublicense, and other information; contributor information; strategies, costs, prices, uses, applications of products and services; results of and data from investigations or experiments; all apparatus, products, processes, compositions, samples, formulas, computer programs, pricing policy, financial information, and methods of doing business; policy and/or procedure manuals, training and recruiting procedures; accounting procedures; the status and content of PharmaFrontiers' contracts with its contributors, clients, and customers; PharmaFrontiers' business philosophy, and servicing methods and techniques; all at any time used, developed, or investigated by PharmaFrontiers, before or during the term of this Agreement, which are not generally available to the public or which are maintained as confidential by PharmaFrontiers.

3.2 Director recognizes and acknowledges that Director will have access to certain information of PharmaFrontiers that is confidential and proprietary and constitutes valuable and unique property of PharmaFrontiers. Director agrees that Director will not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, except in pursuance of Director's duties on behalf of PharmaFrontiers, its successors, assigns or nominees, or as required by the order of any tribunal having jurisdiction or by mandatory provisions of applicable law, any Confidential Information or know-how of PharmaFrontiers without the prior written consent of the Board of PharmaFrontiers. Director further agrees to maintain in confidence any confidential information of third parties received as a result of Director's relationship with PharmaFrontiers.

3.3 Director further agrees to deliver to PharmaFrontiers promptly after his resignation, removal or failure to be nominated or elected as a member of the Board, all biological materials correspondence, memoranda, notes, records, drawings, sketches, plans, customer, client and/or contributor lists, product compositions, or other documents and all copies thereof (all of which are hereafter referred to as the "Documents"), made, composed or received by Director, solely or jointly with others, and which are in Director's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of PharmaFrontiers.

3.4 Director further agrees that Director will not, during the term of this Agreement, and on behalf of PharmaFrontiers accept or agree to receive from persons not employed by PharmaFrontiers, any confidential information not belonging to PharmaFrontiers, unless prior to such receipt or acceptance a valid agreement has been executed between PharmaFrontiers and the disclosing party that states that PharmaFrontiers will not be in a confidential relationship with the disclosing party. Director further agrees that Director will not use in violation of any confidentiality obligation binding upon Director any confidential information belonging to Director's employer or any former employer, or any other third parties.

3.5 In the event of a breach or threatened breach of any of the provisions of Section 4, or any breach by Director of his fiduciary obligation to PharmaFrontiers and its shareholders, PharmaFrontiers shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Director from using or disclosing, for Director's benefit or the benefit of others, in whole or in part, any Confidential Information, including but not limited to the Confidential Information which such Documents contain, constitute, or embody. Director further agrees that any breach or threatened breach of any of the provisions of Section 4 would cause irreparable injury to PharmaFrontiers for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting PharmaFrontiers from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

4. Noncompetition/No-Hire Agreement

4.1 Director agrees that, from the Effective Date until a period of one (1) year following the date of his resignation removal or failure to be nominated or elected as a member of the Board, (the "Noncompetition Period"), Director will not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, corporate officer, director, or in any other individual or representative capacity, engage or participate in any "Competitive Business" anywhere in the United States of America, Canada or the European Union (the "Noncompetition Territory"). As used herein, a "Competitive Business" is defined as any business, including those relating to stem cells or cell banking, which provides the same or substantially the same products, services or licenses to intellectual property rights, in whole or in part, as are provided by PharmaFrontiers during the term of this Agreement. Notwithstanding the foregoing, PharmaFrontiers' has been provided notice of and consents to Director's activities involving "nutraceuticals" for the vivo production of stem cells and cord blood and its affiliates Saneron CCEL and Cryo-Cell International and Chemokine Pharmaceuticals and its affiliated companies. Director has no unpatented inventions and discoveries made or conceived by Director prior to Director's engagement with PharmaFrontiers that relate to stem cell isolation, identification and/or expansion and/or cell banking as of the Effective Date.

Nothing in this agreement is intended nor shall preclude Director's ownership and trading of public securities that may be in similar biotechnology or cell related businesses as PharmaFrontiers, however if Director acquires a material interest (i.e. a 5% interest in any said companies this must be disclosed to PharmaFrontiers.

4.2 Director further agrees that during the Noncompetition Period and within the Noncompetition Territory Director will not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, corporate officer, director, or in any other individual or representative capacity, call on, solicit, recruit, or attempt to call on, solicit, or recruit, or attempt to hire any of the employees of PharmaFrontiers, regardless of whether for the benefit of the Director or for any other person, firm, or corporation.

4.3 Director shall not during the Noncompetition Period and within the Noncompetition Territory, either directly or indirectly (i) make known to any Competitive Business the names and addresses of any of PharmaFrontiers' customers or contacts or any other information pertaining to such persons or businesses or (ii) call on, solicit, or take away, or attempt to call on, solicit or take away any of the customers of PharmaFrontiers with whom Director became acquainted during Director's service as a member of PharmaFrontiers' Board, regardless of whether for the benefit of the Director or for any other person, firm or corporation.

4.4 Director agrees that this Section is ancillary to this Agreement, and Director acknowledges that the consideration given by PharmaFrontiers for this Agreement includes PharmaFrontiers' agreement to provide to the Director access to the Confidential Information. Further, the existence of any claim or cause of action of Director against PharmaFrontiers or any officer, director, or employee of PharmaFrontiers, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by PharmaFrontiers of Director's covenants contained in this Agreement. In addition, this Agreement shall continue to be binding upon Director in accordance with its terms, notwithstanding the termination of this Agreement.

4.5 Director agrees that Director's breach or violation, or threat thereof, of this covenant not to compete shall entitle PharmaFrontiers, as a matter of right, to an injunction without the necessity of posting bond, issued by any court of competent jurisdiction, restraining any further or continued breach or violation of this covenant. Such right to an injunction shall be cumulative and in addition to, and not in lieu of, any other remedies to which PharmaFrontiers may show itself justly entitled. Further, during any period in which Director is in breach of this covenant not to compete, the time period of this covenant shall be extended for an amount of time that Director is in breach.

5. Inventions and Other Intellectual Property

5.1 Director agrees to hold in complete trust for the benefit of PharmaFrontiers, and to disclose and fully to PharmaFrontiers in writing, and hereby assigns, and binds Director's heirs, executors, administrators, and all legal representatives to assign, to PharmaFrontiers any and all inventions, discoveries, ideas, concepts, improvements, copyrightable works, biological materials, and other developments (all of the above are collectively referred to as the "Developments") conceived, made, discovered or developed by him, solely

or jointly with others, during the term of this Agreement, whether during or outside of usual working hours and whether on PharmaFrontiers' premises or not, which relate in any manner to the past, present or anticipated business of PharmaFrontiers. The parties agree that, if Director is an inventor as determined by U.S. patent law for any invention, Director shall be named as an inventor in connection with any patent application therefore. Any and all such Developments shall be the sole and exclusive property of PharmaFrontiers, whether patentable, copyrightable, or neither, and Director agrees that Director will assist and fully cooperate in every way, at PharmaFrontiers' expense, in securing, maintaining, and enforcing, for the benefit of PharmaFrontiers or its designee, patents, copyrights or other types of proprietary or intellectual property protection for such Developments in any and all countries. Director acknowledges and agrees that any and all such Developments conceived, created, or authored by him is a "work made for hire," as defined by the federal copyright laws, and therefore all copyrights in and to such works are and will be owned by PharmaFrontiers. To the extent that Director authors any copyrightable work in any medium during the term of this Agreement which relates or pertains in any way to PharmaFrontiers or any of the operations or activities of either and which was is held not a work made for hire, Director hereby assigns all right, title, and interest, including but not limited to all rights of copyright, in and to such works to PharmaFrontiers. Within six months following the termination of this Agreement, and without limiting the generality of the foregoing, any Development of the Director relating to any PharmaFrontiers subject matter on which Director worked or was informed during the term of this Agreement shall be conclusively presumed to have been conceived and made prior to the termination of this Agreement (unless the Director clearly proves that such Development was conceived and made following the termination of this Agreement), and shall accordingly belong, and be assigned to PharmaFrontiers and shall be subject to this Agreement.

5.2 Without limiting the foregoing, Director agrees at the request of PharmaFrontiers (but without additional compensation from PharmaFrontiers during Director's employment by PharmaFrontiers) to execute any and all papers and perform all lawful acts which PharmaFrontiers deems necessary for the preparation, filing, prosecution, and maintenance of applications for United States and foreign letters patent or for United States and foreign copyrights, on the Developments, and to execute such instruments as are necessary or convenient to assign to PharmaFrontiers, its successors, assigns or nominees, all of the Director's right, title, and interest in the Developments and the like, so as to establish, maintain or perfect, in PharmaFrontiers, its successors, assigns or nominees, the entire right, title, and interest to the Developments, and also to execute any instruments necessary or which PharmaFrontiers may deem desirable in connection with any continuation, renewal or reissue thereof, or in the conduct of any proceedings or litigation in regard thereto.

5.3 All expenses incurred by the Director by reason of the performance of any of the obligations set forth in this Section on Inventions shall be borne by PharmaFrontiers. Should the Director's assistance be requested by PharmaFrontiers after termination of this Agreement, PharmaFrontiers would compensate the Director at a reasonable rate.

6. Conflicts of Interest

6.1 In keeping with Director's fiduciary duties to PharmaFrontiers, Director agrees that Director shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Director agrees that Director shall promptly disclose to the Board of PharmaFrontiers any facts which might involve any reasonable possibility of a conflict of interest as PharmaFrontiers is currently and in the future configured and practicing business. Director shall maintain the highest standards of conduct, and shall not do anything likely to injure the reputation or goodwill of PharmaFrontiers, or embarrass or otherwise generate adverse publicity for or bring unwanted attention to PharmaFrontiers.

6.2 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect PharmaFrontiers or any of its subsidiaries or affiliates, involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Director would or might arise, and which should be reported immediately by Director to an officer of PharmaFrontiers, include, without limitation, the following: (a) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which PharmaFrontiers does business; (b) misuse of information or facilities to which Director has access in a manner which will be detrimental to PharmaFrontiers' interest; (c) disclosure or other misuse of information of any kind obtained through the Director's connection with PharmaFrontiers; (d) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by PharmaFrontiers; (e) the appropriation to the Director or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that PharmaFrontiers would be interested; and (f) the ownership, directly or indirectly, of a material interest in an enterprise in competition with PharmaFrontiers or its dealers and distributors or acting as a director, officer, partner, consultant, Director or agent of any enterprise which is in competition with PharmaFrontiers or its dealers or distributors.

7. Prior Discoveries

Director has no unpatented inventions and discoveries made or conceived by Director prior to the Effective Date that relate to stem cell isolation, identification and/or expansion and/or cell banking.

8. Remedies

Director and PharmaFrontiers agree that, because damages at law for any breach or nonperformance of this Agreement by Director, while recoverable, are and will be inadequate, this Agreement may be enforced in equity by specific performance, injunction, accounting or otherwise.

9. Miscellaneous

9.1 This Agreement is made and entered into as of the Effective Date and the rights and obligations of the parties hereto shall be binding upon the heirs and legal representatives of the Director and the successors and assigns of PharmaFrontiers. This Agreement may be assigned by PharmaFrontiers (including assignment by operation of law to any successor to the business of PharmaFrontiers by merger, consolidation or other business combination) without the consent of Director but is personal to the Director and no rights, duties, and obligations of Director hereunder may be assigned without the consent of PharmaFrontiers or its assigns, which may be granted or withheld in its sole discretion.

9.2 No waiver or non-action with respect to any breach by the other party of any provision of this Agreement, nor the waiver or non-action with respect to any breach of the provisions of similar agreements with other Directors shall be construed to be a waiver of any succeeding breach of such provision, or as a waiver of the provision itself.

9.3 Should any portions hereof be held to be invalid or wholly or partially unenforceable, such holding shall not invalidate or void the remainder of this Agreement. The portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable, or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if it had never been included herein.

9.4 Director's obligations under this Agreement to PharmaFrontiers shall survive Director's resignation, removal or failure to be nominated or elected as a member of the Board of PharmaFrontiers.

9.5 This Agreement supersedes, replaces and merges any and all prior and contemporaneous understandings, representations, agreements and discussions relating to the same or similar subject matter as that of this Agreement between Director and PharmaFrontiers and constitutes the sole and entire agreement between the Director and PharmaFrontiers with respect to the subject matter of this Agreement.

9.6 The laws of the State of Texas, excluding any conflicts of law rule or principle that might otherwise refer to the substantive law of another jurisdiction, will govern the interpretation, validity and effect of this Agreement without regard to the place of execution or the place for performance thereof, and PharmaFrontiers and Director agree that the state and federal courts in Harris county, Texas, shall have personal jurisdiction and venue over PharmaFrontiers and Director to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

9.7 All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have given when mailed by registered mail or certified mail, return receipt requested, as follows:

If to PharmaFrontiers, to:

Mr. David McWilliams
PharmaFrontiers Corp.
835 Greens Parkway,
Suite #150 Houston, TX 77067

If to Director, to:

Tony Kamin
619 Bluff Street, Suite 100
Glencoe, IL 60022

or to such other addresses as either party may designate by notice to the other party hereto in the manner specified in this section.

9.8 This Agreement may not be changed or terminated orally, and no change, termination or waiver of this Agreement or of any of the provisions herein contained shall be binding unless made in writing and signed by both parties, and in the case of PharmaFrontiers, by an authorized officer of PharmaFrontiers. Any change or changes, from time to time, in Director's compensation shall not be deemed to be, a change, termination or waiver of this Agreement or of any of the provisions herein contained.

IN WITNESS WHEREOF, the undersigned have hereby caused this Agreement to be effective as of the date first written above.

PharmaFrontiers Corp., a Texas Corporation

By: /s/ David B. McWilliams

David B. McWilliams, CEO

By: /s/Tony Kamin

Tony Kamin

FORM OF NOTE AGREEMENT

15% Exchangeable Convertible Subordinated Notes Due November 30, 2005

To each of the Purchasers
of the above Notes:

Gentlemen:

PharmaFrontiers Corp., a Texas corporation (the "Company"), is offering for sale up to \$10,000,000 of 15% Exchangeable Convertible Subordinated Notes due November 30, 2005 (the "Notes"). The terms and conditions governing the Notes are contained in this Agreement. As purchasers of the Notes, you are acquiring one or more of the Notes to be issued pursuant to this Agreement. Accordingly, the Company hereby agrees with you (each herein called a "Purchaser" and together, the "Purchasers") as follows:

1. **AUTHORIZATION OF NOTES.** The Company will authorize the issue and sale of up to \$10,000,000 in aggregate principal amount of its Notes. Each Note issued hereunder will be dated the date of its issuance, will mature on November 30, 2005, will bear interest on its unpaid principal balance from the date of issuance at the rate of 15% per annum, computed on the basis of a 360-day year of twelve 30 day months, payable at maturity, November 30, 2005, and will have the other terms and provisions provided herein and in the form of Note attached hereto as Exhibit A. Interest is payable in cash or at the option of the Company in shares of its Common Stock valued at \$3.00 per share. Upon maturity, the principal amount of the Note will automatically convert into Common Stock. The term "Note" or "Notes" as used herein shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Certain capitalized terms used in this Agreement are defined in Section 15.

2. **PURCHASE AND SALE OF NOTES.** The Company will issue and sell to you and, subject to the terms and conditions of this Agreement, you will purchase from the Company at the purchase price of 100% of the principal amount or value thereof.

3. **REGISTRATION RIGHTS.** The Company agrees to register the resale of the shares of Common Stock issued upon maturity, as set forth in Exhibit B.

4. **REPRESENTATIONS AND WARRANTIES.** The Company represents and warrants to you that:

4.1 **Organization, Qualification, Standing, Capital Stock, etc.** The Company is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, has the corporate power to own its properties and to carry on its businesses as the same are now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it or the nature of its businesses makes such qualification necessary. The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, of which 7,366,838 shares are issued and outstanding as of the date of this Agreement, and 10,000,000 shares of preferred stock, of which no shares are issued and outstanding as of the date of this Agreement. All of the outstanding shares of Common Stock have been validly issued and are fully paid and nonassessable. Except for those described in the Memorandum and in SEC Filings, there are not outstanding, nor is the Company subject to any agreement, arrangement, or understanding under which there may become outstanding, any option, warrant, or other right to purchase or subscribe to, or security convertible into or exchangeable for, any shares of capital stock of any class of the Company.

4.2 **Financial Statements, Subsequent Changes, etc.** The financial statements and other financial data and information contained in or referred to in SEC Filings and the Memorandum, are complete and correct in all material respects and fairly present in all material respects the financial condition of the Company at the respective dates of said statements or information for the respective periods covered thereby. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as otherwise noted therein).

4.3 Other Information as to the Company. The SEC Filings and the Memorandum do not contain any misstatement of a material fact or omit to state any material fact necessary to be stated therein or necessary in order to make the statements therein not misleading. In the event the Company has furnished to you written information which corrects information previously furnished, the information last furnished is deemed to govern for purposes of this Section 4.3.

4.4 Litigation. Except as set forth in the SEC Filings and the Memorandum, there is no action, suit, or proceeding at law or in equity or by or before any governmental instrumentality or agency or any arbitrator now pending or, to the Company's knowledge, threatened, against, or affecting the Company, or any of its properties or rights, which, if adversely determined, might, either in any case or in the aggregate result in a Material Adverse Change, or result in any substantial liability not adequately covered by insurance, or for which adequate reserves are not maintained on the Company's balance sheet.

4.5 Licenses. Except as disclosed in the SEC Filings and the Memorandum and which would not have a Material Adverse Change, the Company has all permits, licenses, and other authority as are necessary to enable it to conduct its business as now conducted and as proposed to be conducted, and to the best of the Company's knowledge, the Company is not in default under any such permits, licenses or other authority.

4.6 Due Authorization and Compliance with Other Instruments. This Agreement and the Notes have been duly and validly authorized by all requisite corporate proceeding and this Agreement constitutes, and the Notes when executed and delivered will be, valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium, or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of equitable remedies are subject to the discretion of courts before which any proceeding therefor may be brought and the Notes will be entitled to the benefits of this Agreement and are not subject to any preemptive or similar rights on the part of any holder or holders of shares of capital stock of the Company.

4.7 Burdensome and Conflicting Agreements and Violations of Charter Provisions. The Company is not bound by any agreement or instrument or subject to any charter or other corporate restriction which materially and adversely affects its business, properties, operations, prospects or condition, financial or otherwise. The Company is not in violation of its charter or bylaws or of any agreement or instrument by which it is bound, or of any statute, law, rule or regulation, or of any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority applicable to it, in a manner that could result in the imposition of substantial penalties or result in a Material Adverse Change. Neither the authorization, execution, and delivery of this Agreement or the Notes, the consummation of the transactions herein and therein contemplated, nor the fulfillment of or compliance with the terms hereof and thereof, will conflict with or result in a breach of any of the terms of the charter or by-laws, or of any material statute, law, rule, or regulation, or of any judgment, decree, writ, injunction, order, or award of any arbitrator, court or governmental authority, or of any instrument, which is applicable to the Company or by which the Company is bound, or result in the imposition of any lien upon any of the properties or assets of the Company, other than consents to obtained prior to Closing.

4.8 Consents and Approvals. Except as disclosed in the SEC Filings or the Memorandum or as would not have a Material Adverse Change, the Company has obtained or made provisions to obtain all material (a) governmental consents, approvals and authorizations, and registrations and filings with governmental authorities, and (b) consents, approvals, waivers, and notifications of stockholders, creditors, lessors, and other non-governmental persons, in each case, in connection with the execution and delivery of this Agreement and the Notes, and the consummation of the transactions herein and therein contemplated.

4.9 Tax Returns and Payments. The Company has filed all required information and tax returns and reports and has paid, or adequately provided for the payment of, all taxes, assessments, and other governmental charges that are material in amount imposed upon it or upon any of its assets, income or franchises, other than any such charges which are currently payable without penalty or interest. The charges, accruals, and reserves on the books of the Company with respect to taxes for all fiscal periods are adequate, in the opinion of the Company, and the Company knows of no actual or proposed tax assessment that is material in amount for any fiscal period or of any basis therefor against which adequate reserves have not been set up.

4.10 Offering of the Securities. Neither the Company nor anyone authorized to act on its behalf (other than the Agent) has or will directly or indirectly sell or offer the Notes or any part thereof or any similar instruments to, or solicit any offer to buy any thereof from, any Person so as to bring the issue and sale of any thereof within the provisions of Section 5 of the Securities Act.

4.11 Transactions With Affiliates and Employees. Except as set forth in the SEC Filings or the Memorandum, none of the officers, directors, affiliates or greater than 5% shareholders 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.

5. PREPAYMENT OF NOTES. The Company does not have any right to prepay all or a portion of the Notes.

6. RESERVED.

7. COVENANTS OF THE COMPANY. The Company covenants and agrees that, so long as any of the Notes are outstanding, it will comply with the following provisions, subject to the provisions of Section 17 hereof:

7.1 Use of Proceeds. The Company will apply all proceeds (net of costs directly related to the preparation and negotiation of this Agreement and the offering and sale of the Notes) derived from the sale of the Notes as set forth in the Memorandum.

7.2 Payment of Principal and Interest. The Company will make all payments of principal of and interest on the Notes at the time the same shall become due thereunder or hereunder.

7.3 Taxes. The Company will promptly pay and discharge all lawful taxes, assessments, and governmental charges or levies (other than taxes, assessments, and other governmental charges imposed by foreign jurisdictions or otherwise which in the aggregate are not material to the business or assets of the Company) imposed on it or upon its income or profits, or upon any of its properties, real or personal, before the same shall become in default, as well as all lawful claims for labor, materials, and supplies or otherwise which, if unpaid, might become a lien or charge upon its properties or any part thereof; provided, however, that the Company shall not be required to pay or cause to be paid any such tax, assessment, charge, levy or claim prior to institution of foreclosure proceedings if the validity thereof shall be contested in good faith by appropriate proceedings and if the Company shall have established reserves deemed by the Company adequate with respect to such tax, assessment, charge, levy, or claim or as may be required by generally accepted accounting principles consistently applied.

7.4 Insurance. The Company will maintain all current, and will use its best efforts to obtain all additional, liability, property damage and other insurance on its insurable property against fire and other hazards with financially sound and responsible insurance carriers with which the Company is doing or will do business, or (in the absence of any such requirements) in the relative proportionate amounts usually carried by reasonable and prudent companies conducting businesses similar to that of the Company.

7.5. Maintenance of Existence and Properties. The Company will keep its corporate existence in full force and effect. The Company will keep its properties in good repair, working order, and condition, and from time to time will make all needful and proper repairs, renewals, replacements, extensions, additions, betterments, and improvements thereto, so that the business carried on may be properly conducted at all times in accordance with prudent business management. The Company will comply with all applicable laws and regulations (including Environmental Laws), decrees, orders, judgments, licenses and permits, including without limitation all environmental permits ("Applicable Laws"), except where noncompliance with such Applicable Laws would not cause a Material Adverse Change.

7.6 Financial Statements. The Company will keep books of record and accounts in which full, true and correct entries in all material respects in accordance with generally accepted accounting principles will be made of all dealings or transactions in relation to its business and activities.

7.7 Filings Under the Exchange Act. So long as the Noteholders beneficially own the Notes, the Company shall file all reports required to be filed with the Commission pursuant to Section 13 and 15(d) of the Exchange Act and shall not terminate its status as an issuer required to file reports under the Exchange Act where the rules and regulations thereunder would permit such termination. The Company will take all reasonable action under its control to maintain the continued listing and quotation and trading of the its Common Stock on the OTC Bulletin Board and will comply with the Company's reporting, filing and other obligations under the by-laws or rules of the National Association of Securities Dealers, Inc. applicable to it at least so long as the Noteholder beneficially owns the Notes.

7.8 Listing on Securities Exchanges and Nasdaq. In the event the Company applies for listing on any national securities exchange or on the Nasdaq Stock Market, the Company will include the shares of Common Stock underlying the Notes in any such application.

7.9 Shares Reserved for Issuance. The Company shall reserve, free from preemptive rights, out of its authorized but unissued shares, sufficient shares to provide for the conversion of the Notes from time to time as such Notes are presented for conversion; provided that nothing contained herein shall be construed to preclude the Company from satisfying its obligations in respect of the conversion of Notes by delivery of repurchased shares of Common Stock which are held in the treasury of the Company.

7.10 Shares Issued Upon Conversion. The Company covenants that all shares of Common Stock which may be issued upon conversion of Notes will upon issuance be fully paid and nonassessable by the Company and free of preemptive rights. If any shares of Common Stock to be reserved for the purpose of conversion of Notes hereunder require registration with or approval of any governmental authority under any federal or state law before such shares may be validly issued or delivered upon conversion, then the Company covenants that it will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be; provided, however, that nothing in this Section shall be deemed to affect in any way the obligations of the Company to convert Notes into Common Stock.

7.11 Dealings with Affiliates. Without Board of Directors approval, the Company covenants that it will not enter into any transaction including, without limitation, any loans or extensions of credit or royalty agreements with any officer, director, affiliate or greater than 5% shareholder of the Company, or any member of their respective immediate families or any corporation or other entity directly or indirectly controlled by one or more of such officers, directors, affiliates or greater than 5% shareholder or members of their immediate families, except for (i) ordinary course business expense advances for business purposes that are subject to reimbursement from the Company upon presentation of appropriate documentation and other advances in reasonable amounts made to employees of the Company for valid business purposes, and (ii) service rendered to the Company by an officer, director, employee or greater than 5% shareholder.

7.12 Other Negative Covenants. Unless such transaction is approved in writing by the holders of 51% of the aggregate principal amount of the Notes, the Company hereby further covenants and agrees that it will not:

- (a) Alter, change or amend the preferences or rights of the Company's common stock;
- (b) Amend its articles of incorporation;
- (c) Sell, lease, or otherwise dispose of all or substantially all of its assets;
- (d) Dissolve, liquidate, or wind up its business;
- (e) Conduct its business other than in its ordinary and usual course;

(f) Reclassify any of its outstanding securities or declare, set aside, or pay any dividend or other distribution on or make or agree or commit to make any exchange for or redemption of any such securities payable in cash, stock, or property; or

(g) Create, incur, or assume any long-term or short-term indebtedness for money borrowed by the Company other than the Notes, Permitted Debt or in the ordinary course of business.

7.13 Notice of Default. The Company will within ten Business Days notify you upon becoming aware of the occurrence of any Event of Default hereunder.

8. PAYMENT, REGISTRATION, AND TRANSFER OF NOTES. The Company will promptly and punctually pay the interest on the Notes held by you without any presentment thereof; and the Company will pay all amounts payable to you in respect of principal of and interest on the Notes to you or your nominees at the address or at such other place as you may from time to time designate in writing. The Company agrees to maintain an office (or to appoint an agent having an office) in Houston, Texas, or such other city as the Company may designate by notice in writing to the Noteholders, at which Notes may be surrendered for transfer and reissuance, for exchange, replacement, conversion, or cancellation. The Company shall keep or cause to be kept, at the office or agency so maintained, a register or registers in which the Company or its agents shall register the names and addresses of the holders of the Notes and shall transfer registered Notes in accordance with this Agreement. Upon surrender for transfer of any registered Note duly assigned by the registered holder (or its duly authorized attorney) to the transferee(s) thereof and subject to satisfaction of the requirements set forth in Section 12.4, the Company shall execute and deliver a new registered Note (or Notes in appropriately subdivided denominations of principal), dated the most recent date to which interest shall have been paid on the surrendered Note, in an equal principal amount with notation of payments of principal made thereon, or in a principal amount equal to the original principal amount as reduced by payments of principal theretofore made on the Note surrendered, in the name of, and payable to the order of, the transferee(s) thereof. No service charge shall be assessed for any transfer, registration, reissuance, or notation of payment hereunder.

9. SUBORDINATION OF NOTES. The Company covenants and agrees and each Noteholder, by his acceptance thereof, whether upon original issue or upon transfer or assignment, likewise covenants and agrees that the payment of the principal of and interest on each and all of the Notes is hereby expressly made subordinate in accordance with the provisions of this Section 9, and each Person holding any Notes, accepts and agrees to be bound hereby.

9.1 Subordination to Senior Indebtedness. The indebtedness evidenced by, and payment of the principal of and interest on, the Notes shall be subordinate and subject in right of payment to the extent and in the manner set forth in this Section 9 to the prior payment in full of all Senior Indebtedness.

9.2 No Payment of Notes in Certain Events. To the extent and in the manner set forth in this Section 9.2, no part of the Notes shall have any claim to the assets of the Company on parity with or prior to the claim of the Senior Indebtedness. In the event and during the continuation of a Senior Indebtedness Default, no payment of principal or interest shall be made on the Notes unless and until such Senior Indebtedness Default shall have been waived or remedied, nor shall any such payment be made if after giving effect, as if paid, to such payment, any Senior Indebtedness Default would exist; provided, that with respect to a Senior Indebtedness Default other than a default in the payment of principal (including mandatory prepayments) of or interest on Senior Indebtedness, nothing in this Section 9.2 shall prevent any regularly scheduled payment of principal or interest of the Notes for a period longer than the longer of (i) 120 days or (ii) any period during which the Senior Indebtedness in respect of which a Senior Indebtedness Default so exists is or has been declared due and payable in its entirety and (x) such acceleration has not been rescinded or annulled or (y) such Senior Indebtedness has not been paid in full.

9.3 Priority of Payment of Senior Indebtedness in Certain Events. Upon any payment or distribution of assets of the Company of any kind or character, whether in cash, property, or securities, to creditors upon any dissolution or winding up or total or partial liquidation or reorganization of the Company, whether voluntary or involuntary, assignment for the benefit of creditors, or in bankruptcy, insolvency, receivership, reorganization or other proceedings, all Senior Indebtedness shall first be paid in full or payment thereof provided for in money or money's worth before the holders of the Notes shall be entitled to retain any assets so paid or distributed in respect thereof (for principal or interest); and upon any such dissolution or winding up or liquidation or

reorganization any payment or distribution of assets of the Company of any kind or character, whether in cash, property, or securities, to which the holders of the Notes would be entitled, except for these provisions, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent, or other Person making such payment or distribution, or by the Noteholders if received by them, directly to the holders of Senior Indebtedness (pro rata to each holder on the basis of the respective amounts of Senior Indebtedness held by such holder) or their representatives, to the extent necessary to pay all Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Noteholders.

9.4 Payments Due Holders of Senior Indebtedness. In the event that any payment or distribution of assets of the Company of any kind or character, whether in cash, property, or securities, which, by virtue of the provisions of Sections 9.2 or 9.3 should not be paid to the Noteholders, shall nevertheless be received by the Noteholders before all Senior Indebtedness is paid in full, or provision made for such payment, in accordance with its terms, such payments or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any agreement pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, as their respective interests may appear, or to a bank or trust company having a combined capital and surplus of not less than \$10,000,000 which is in good standing and has its principal office in the State of Texas, to be held in escrow, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Indebtedness.

9.5 Notice of Acceleration. The Noteholders agree to give the holders of Senior Indebtedness notice in writing 30 days prior to declaring the unpaid principal amount of the Notes immediately due and payable pursuant to the provisions of Section 11.

9.6 Enforcement, Subrogation, etc. The foregoing subordination provisions shall be for the benefit of the present and future holders of the Senior Indebtedness and may be enforced directly by such holders against the Noteholders. Upon any payment or distribution of assets of the Company referred to in Section 9.3, the Noteholder shall be entitled to rely upon a certificate of the receiver, trustee in bankruptcy, liquidating trustee, Company, agent, or other Person making such payment or distribution, delivered to the Noteholder for the purpose of ascertaining the Persons entitled to participate in such distribution, to the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertaining thereto or to the provisions of this Section 9. Subject to the payment in full of all Senior Indebtedness, the Noteholders (together and pro rata with the holders of any other indebtedness of the Company which is subordinate in right of payment to the payment of other indebtedness of the Company, but is not subordinate in right of payment to the Notes and by its terms grants the right of subrogation to the holders thereof) shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of assets of the Company made on the Senior Indebtedness until the principal of and interest on the Notes shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of any cash, property, or securities to which the Noteholders would be entitled except for these provisions shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Noteholders, be deemed to be a payment by the Company to or on account of Senior Indebtedness, it being understood that these provisions are and are intended solely for the purpose of defining the relative rights of the Noteholders, on the one hand, and the holders of Senior Indebtedness, on the other hand.

9.7 Obligations Unimpaired. Nothing contained in this Section 9 is intended to or shall impair as between the Company, its creditors other than the holders of Senior Indebtedness and the Noteholders, the obligation of the Company, which shall be absolute and unconditional, to pay to the Noteholders the principal of and interest on the Notes as and when the same shall become due and payable in accordance with the terms thereof, or is intended to or shall affect the relative rights against the Company of the Noteholders and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Noteholder from exercising all remedies otherwise permitted by applicable law upon default, subject to the rights, if any, under this Section 9 of the holders of Senior Indebtedness in respect of any required notice of the exercise of any such remedy or cash, property, or securities of the Company otherwise payable or deliverable to such holder. Each Noteholder by his acceptance thereof shall be deemed to acknowledge and agree that the subordination provisions of this Section 9 are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness, whether such Senior Indebtedness, was created or acquired before or after the issuance of the Notes, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and each holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.

10. SUBSTITUTION OF NOTES. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction, or mutilation of any Note, and of indemnity satisfactory to it (which, in the case of any original purchaser of the Notes, shall be a contractual obligation of such purchaser) and upon surrender, at the office or agency maintained in accordance with Section 8 hereof, and cancellation of any Note, if mutilated, the Company will execute and deliver a new Note of like tenor, in lieu of such Note, dated the most recent date to which interest on such Note shall have been paid.

11. EVENTS OF DEFAULT.

11.1 Definition; Remedies. If any one or more of the following events (herein called "Events of Default") shall occur and be continuing:

(a) default shall be made in the payment of principal of any of the Notes when and as the same shall become due and payable at maturity which principal amount shall not have been paid through the issuance of Common Stock at the Conversion Price within 20 days from maturity;

(b) default shall be made in the payment of interest on the Notes when the same becomes due and payable and such default shall have continued for a period of 10 days;

(c) default shall be made in any of the representations or warranties set forth in Section 4 or the covenants set forth in Section 7 and such default shall have continued for a period of 20 days after written notice thereof to the Company from any holder or holders of Notes aggregating not less than 51% of the aggregate principal amount of the Notes then outstanding;

(d) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, or liquidator of the Company or any of its assets, (ii) make a general assignment for the benefit of creditors, (iii) be adjudicated a bankrupt or insolvent or (iv) file a voluntary petition in bankruptcy, or a petition or answer seeking reorganization or an arrangement with creditors to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, moratorium, dissolution, liquidation, or debtor relief law, or any chapter of any such law, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law or chapter, or corporate action shall be taken by the Company for the purpose of effecting any of the foregoing; (v) or an order, judgment, or decree shall be entered, without the application, approval, or consent of the Company, by any court of competent jurisdiction, approving a petition seeking liquidation or reorganization of the Company of all or a substantial part of the assets of the Company, and provided that such order, judgment, or decree remains in effect for more than 90 consecutive days;

(e) default shall occur with respect to any other indebtedness for borrowed money of the Company or under any agreement under which such indebtedness may be issued by the Company and such default shall continue for more than the period of grace, if any, therein specified, if the aggregate amount of such indebtedness for which such default shall have occurred exceeds \$500,000; or

(f) final judgment for the payment of money in excess of \$500,000 shall be rendered against the Company and the same shall remain undischarged for a period of 60 days during which the execution shall not be effectively stayed;

then and in each and every such case upon the written authorization of a holder of a Note by notice in writing to the Company, declare the unpaid principal of all the Notes together with accrued interest thereon to be forthwith due and payable and thereupon such principal and interest shall be due and payable without presentment, protest, or further demand or notice of any kind, all of which are hereby expressly waived.

This Section 11, however, is subject to the condition that, if at any time after the occurrence of an Event of Default hereunder, and before the entry of any judgment or decree against the Company for the payment of all or any portion of the Notes then outstanding, the Noteholders aggregating not less than 51% of the aggregate principal amount of the Notes then outstanding may, by written notice to the Company, either temporarily suspend or permanently rescind and annul such declaration of an Event of Default and its consequences (including, without limitation, the acceleration of the Notes as a result of such Event of Default); but no such suspension or rescission and annulment shall extend to or affect any prior, concurrent, or subsequent default or Event of Default (other than the ones identified by the Noteholders declaring them due as the ones upon which such declaration was based) or impair any right consequent thereon.

If any Noteholder shall demand payment thereof or take any other action (of which the Company has actual knowledge) in respect of a default occurring in the payment of any principal of, or interest on, any Note when and as the same shall become due and payable, the Company will forthwith give written notice thereof to each holder of record of the Notes then outstanding.

11.2. Costs of Collection. The Company covenants that in the Event of Default, it will pay to the holder thereof such further amount as shall be reasonably sufficient to cover the cost and expense of collection, including, without limitation, court costs and reasonable compensation to the attorneys and counsel of the holder for all services rendered in that connection.

11.3. No Course of Dealing. No course of dealing between the Company and any Noteholder or any delay on the part of the Noteholder in exercising any rights thereunder or hereunder shall operate as a waiver of any rights of any such holder.

12. REPRESENTATIONS OF PURCHASER. Each Purchaser represents and warrants to the Company as of the date hereof, as follows:

12.1. Investment Representations. The Purchaser is acquiring the Notes for investment purposes and not with a view to the resale or distribution of all or any part thereof. The Purchaser acknowledges that the Notes have not been registered under the Securities Act, or the securities or "blue sky" laws of any state or other domestic or foreign jurisdiction, and that none of such securities may be sold, transferred or otherwise disposed of except pursuant to an effective registration statement thereunder or an applicable exemption therefrom.

12.2. Authority. The execution and delivery of this Agreement, and the consummation of the transactions contemplated hereby by the Purchaser has been duly and validly authorized by all requisite action on the part of the Purchaser. This Agreement has been duly executed and delivered by the Purchaser and constitutes the valid and binding obligations of Purchaser, enforceable against the Purchaser in accordance with its terms except as the same may be limited by equitable principles and by bankruptcy, insolvency, moratorium and other laws of general application affecting the enforcement of creditors' rights.

12.3 Accredited Investor. Each Purchaser (i) has such knowledge and experience in financial and business matters that such Purchaser is capable of evaluating the merits and risks of his or her investment in the Notes and has the financial ability to assume the monetary risk associated therewith; (ii) is able to bear the complete loss of his or her investment in the Notes; has received such documents and information from the Company as such Purchaser has requested and has had the opportunity to ask questions of and receive answers from the Company and the terms and conditions of the offering of the notes and to obtain additional information ; (iv) is an "accredited investor" as defined in Rule 501(a) of Regulation D promulgated under the Securities Act; and (v) is not relying upon any statements or instruments made or issued by any person other than the Company in making a decision to invest in the Notes.

12.4. Restrictive Legends. Each Note shall (unless otherwise permitted by the provisions of Section 12.5 hereof) and certificate for Common Stock issued upon conversion of a Note and each certificate for Common Stock issued to a subsequent transferee shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Securities Act") or any state securities act. The securities have been acquired for investment and may not be sold, transferred, pledged or hypothecated unless (i) they shall have been registered under the Securities Act and any applicable state securities act, or (ii) the corporation shall have been furnished with an opinion of counsel, satisfactory to counsel for the corporation, that registration is not required under any such act."

12.5. Notice of Proposed Transfers. (a) Except as otherwise provided in paragraph (b) of this Section 12.5, prior to any transfer or attempted transfer of any Note or shares of Common Stock, the holder thereof shall give written notice to the Company of such holder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer and shall be accompanied by an opinion of counsel for such holder satisfactory to the Company, to the effect that such transfer may be effected without registration of such Note under the Securities Act. If such notice is accompanied by such an opinion, such holder shall be entitled to transfer such Note in conformity with the terms of such notice, and, if the opinion of counsel so specifies, the Note issued upon any such transfer shall not bear the restrictive legend set forth in Section 12.4. Such holder shall indemnify the Company for any transfer effected pursuant to this Section 12.5(a).

(b) The procedure set forth in paragraph (a) of this Section 12.5 shall not apply to any transfer by you (or a transferee pursuant to this paragraph

(b)) of any Note to any of your Subsidiaries or Affiliates; provided, however, that at the time of such transfer the transferee shall execute and deliver to the Company an "investment letter" containing substantially the representations provided in Sections 12.1, 12.2 and 12.3 hereof with respect to the Notes that are the subject of such transfer and its agreement to be bound by the provisions of this Section 12 and such transfer is otherwise exempt from registration under the securities Act and applicable state securities laws. Notes issued upon such transfer shall bear the appropriate restrictive legend set forth in Section 12.4 hereof.

12.6 Transfer of Your Rights. Your rights under this Section 12 shall inure to the benefit of all Persons who shall at any time be the holders of Notes originally purchased by you hereunder, pro rata in accordance with their respective interests, and each such holder, by such holder's acceptance of such Note, as the case may be, agrees to be and shall be deemed to be bound by all of your covenants set forth in this Section 12, to the extent that such covenants are applicable to such holder's Notes.

13. EXCHANGE FOR SECURITIES ISSUED IN EQUITY FINANCING.

13.1 Closing of Equity Financing. Upon the closing of an Equity Financing, the holders of the Notes agree and acknowledge that the principal amount of the Notes will automatically be exchanged for the securities issued in the Equity Financing. The amount of principal of each Note will constitute the consideration of the securities issued in the Equity Financing. The purchase price in the mandatory exchange shall be equal to the weighted average gross offering price of the common stock or common stock equivalents issued in the Equity Financing resulting in gross proceeds raised of at least \$10 million in one or more series of transactions by the Company. Accrued interest on the Notes will be paid at closing in cash or in shares of Common Stock valued at the Common Stock equivalent offering price of the Equity Financing.

13.2 No further action needed to Cancel Notes. Upon the closing of the Equity Financing, the holders will deliver to the Company the Notes issued upon the closing as set forth in this Agreement. Failure to deliver the Notes to the Company in a timely manner will authorize the Company to effect such transfer on its books and records in lieu of said delivery by the Noteholders.

14. MANDATORY CONVERSION OF NOTES.

14.1. Mandatory Conversion and Conversion Price. Upon maturity, the principal amount of the Note will automatically convert into Common Stock and the Company will have the right to pay the accrued interest on the Note through the issuance of Common Stock or in cash. The number of shares of Common Stock which shall be issued upon conversion of a Note shall be determined by dividing the outstanding principal amount of, and accrued interest on (if applicable), such Note by the Conversion Price (as defined herein) in effect at the time of conversion. The "Conversion Price" per share at which shares of Common Stock shall initially be \$3.00; provided however, that the Conversion Price shall be subject to adjustment pursuant to Section 14.4.

Conversion. Conversion shall be deemed to have been effected on the maturity date, and such date is referred to herein as the "Conversion Date." As promptly as practicable on or after the Conversion Date, the Company shall issue and shall deliver at such office or agency a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 14.3.

No payment or adjustment shall be made upon any conversion on account of any interest accrued on the Notes surrendered for conversion after such surrender or on account of any dividends on the Common Stock issued upon conversion.

Notes shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Notes for conversion in accordance with the foregoing provisions, and at such time the rights of the holders of such Notes as holders shall cease, and the Person or Persons entitled to receive the shares of Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock at such time.

14.3. Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Notes. Instead of any fractional share of Common Stock that would otherwise be delivered upon conversion of any Note or Notes (or specified Portions thereof), the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Market Price per share of Common Stock (as deemed by the Board of Directors or in any manner prescribed by the Board of Directors) at the close of business on the day of conversion.

14.4 Adjustment of Conversion Price. (a) The Conversion Price shall be subject to adjustment as follows:

(i) If the Company, at any time while any Notes are outstanding, (a) shall pay a cash dividend or otherwise make a distribution or distributions on shares of its Common Stock payable in shares of Common Stock, (b) subdivide outstanding shares of Common Stock into a larger number of shares, (c) combine outstanding shares of Common Stock into a smaller number of shares, or (d) issue by reclassification of shares of Common Stock any shares of capital stock of the Company, the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 14.4 shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(ii) If the Company, at any time while any Notes are outstanding, shall distribute to all holders of Common Stock evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security (excluding those referred to in Section 14.4(a)(i) above), then in each such case the Conversion Price shall be determined by multiplying the Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the Market Price of Common Stock determined as of the record date mentioned above, and of which the numerator shall be such Market Price of the Common Stock on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of Common Stock as determined by the Company's board of directors in good faith; provided, however, that if the Noteholder disputes such amount, the Noteholder may select a nationally recognized or major regional investment banking firm or firm of independent certified public accountants of recognized standing (an "Appraiser") paid for by the Noteholder and the Company equally, in which case the fair market value shall be equal to the average of the determinations by the Company's board of directors and such Appraiser. In either case the adjustments shall be described in a statement provided to the Noteholder of the Notes of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above

(iii) In case the Company (i) consolidates with or merges into any other entity and is not the continuing or surviving entity of such consolidation or merger, or (ii) permits any other entity to consolidate with or merge into the Company and the Company is the continuing or surviving Company but, in connection with such consolidation or merger, the Common Stock is changed into or exchanged for common stock or other securities of any other entity or cash or any other assets, or (iii) transfers all or substantially all of its properties and assets to any other entity, or (iv) effects a reorganization or reclassification of the equity of the Company in such a way that holders of Common Stock shall be entitled to receive stock, securities, cash or assets with respect to or in exchange for Common Stock, then, and in each such case, proper provision shall be made so that, upon the exercise of the Notes at any time after the consummation of such consolidation, merger, transfer, reorganization or reclassification, the Noteholder shall be entitled to receive (at the Conversion Price in effect for Common Stock issuable upon such conversion of the Notes immediately prior to such consummation), in lieu of Common Stock issuable upon such exercise of the Note prior to such consummation, the stock and other securities, cash and assets to which the Noteholder would have been entitled upon such consummation if such Holder had so exercised the Note immediately prior thereto.

(iv) If and whenever the Company issues or sells any Common Stock (or Common Stock Equivalents) for an effective consideration per common stock of less than the then Conversion Price or for no consideration (such issuances individually and collectively, a "Dilutive Issuance"), then, the Conversion Price shall be reduced by multiplying the Conversion Price by a fraction, the numerator of which is the number of shares of Common Stock issued and outstanding immediately prior to the Dilutive Issuance plus the number of shares of Common Stock which the offering price for such Dilutive Issuance would purchase at the then Conversion Price, and the denominator of which shall be the sum of the number of shares of Common Stock issued and outstanding immediately prior to the Dilutive Issuance plus the number of shares of Common Stock so issued or issuable in connection with the Dilutive Issuance. Such adjustment shall be made whenever Common Stock or Common Stock Equivalents are issued.

(v) Exceptions to Adjustment of Conversion Price. Notwithstanding the foregoing, no adjustment will be made under this Section 14.4 in respect of an Exempt Issuance

(b) Notwithstanding the foregoing provisions, no adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease in such Conversion Price of more than \$.01; provided, however, that any adjustments which by reason of this paragraph (b) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(c) All calculations under this Section 14.4 shall be made to the nearest cent.

(d) Whenever the Conversion Price is adjusted as herein provided, the Company shall determine the adjusted Conversion Price in accordance with this Section 14.4 and shall prepare an Officers' Certificate setting forth such adjusted Conversion Price and showing in detail the facts upon which such adjustment is based; such Officers' Certificate shall forthwith be mailed by or on behalf of the Company to the holders at their last addresses as they shall on the appropriate Schedule.

14.5 Notice of Certain Events. In case at any time:

(a) the Company shall declare a dividend (or any other distribution) payable to the holders of Common Stock otherwise than in cash; or

(b) there shall occur any reclassification of Common Stock (other than a subdivision or combination of outstanding shares of Common stock) or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or the sale or transfer of all or substantially all the assets of the Company; or

(c) there shall occur the voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then the Company shall cause to be filed at the office or agency maintained for the purpose of exchange of Notes, and shall cause to be mailed to the holders of Notes at their last addresses, at least 20 days prior to the record date or other applicable date hereinafter specified, or two days after such date as it receives actual notice of such event, whichever is later, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, or (y) the date, if known by the Company, on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective.

14.6 Transfer Taxes. The Company will pay any and all documentary, stamp, transfer or similar taxes that may be payable in respect of the transfer and delivery of shares of Common Stock pursuant hereto (but not income, capital gains or similar taxes imposed on Noteholders in respect of such transactions); provided, however, that the Company shall not be required to pay any such tax which may be payable in respect of any transfer involved in the delivery of shares of Common Stock in a name other than that in which the Notes converted were registered, and no such transfer or delivery shall be made unless and until the Person requesting such transfer has paid to the Company the amount of any such tax, or has established, to the satisfaction of the Company, that such tax has been paid.

15. DEFINITIONS.

"Affiliates" of any Person shall mean any Person directly or indirectly controlling, controlled by or under direct or indirect common control with such Person. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Note Agreement governing the 15% Exchangeable Convertible Subordinated Notes due November 30, 2005, as amended and modified pursuant to Section 16 hereof.

"Applicable Law" shall have the meaning given such term in Section 7.5 hereof.

"Business Day" shall mean any day on which national banks located in Texas are open for the conduct of banking business.

"Closing" shall have the meaning given such term in Section 3 hereof.

"Commission" shall mean the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

"Common Stock" shall mean the Company's presently authorized Common Stock.

"Common Stock Equivalents" means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Conversion Price" shall have the meaning given such term in Section 14.1 hereof.

"Dilutive Issuance" shall have the meaning given such term in Section 14.4 hereof.

"Environmental Law" shall mean all federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling to materials of environmental concern.

"Equity Financing" shall mean the sale in one or a series of closings of the Common Stock or Common Stock equivalent securities of the Company (either in the form of common or preferred stock) resulting in the raising of gross sales proceeds by the Company of at least \$10 million prior to November 30, 2005. The weighted average of the Common Stock or Common Stock equivalent offering price in the Equity Financing (giving effect to the gross offering amount resulting in the satisfaction of the \$10,000,000 minimum threshold) will be the purchase price in the mandatory exchange.

"Event of Default" shall have the meaning given such term in Section 11 hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Exempt Issuance" shall mean the issuance of (a) shares of Common Stock or Common Stock Equivalents to employees, officers, or directors of the Company pursuant to any existing or future employment arrangements or compensatory plans existing or duly adopted by a majority of the members of the board of directors of the Company or a majority of the members of a committee of directors established for such purpose, (b) Common Stock issued upon conversion or exchange of the Notes and Common Stock issued upon exercise of the Warrants, (c) securities underlying Common Stock Equivalents outstanding on the date of this Agreement, provided that such securities have not been amended since the date of this Agreement to increase the number of such securities (unless such amendment results from the application of any anti-dilution provisions applicable to such securities), (d) securities issued pursuant to acquisitions or strategic transactions, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities provided that such arrangements are approved by a majority of the members of the board of directors of the Company; (e) shares of Common Stock issued to persons or entities with whom the Company has business relationships, including under equipment leasing arrangements, bank or other institutional loans, acquisitions of companies or product lines, joint ventures, manufacturing, marketing, or distribution arrangements, technology transfers or development arrangements, or other arrangements or transactions wherein the principal purpose of the issuance of such Common Stock is for non-equity financing purposes; (f) shares of Common Stock issued to Sanders Morris Harris Inc. or issuable to Sanders Morris Harris Inc. upon exercise of warrants or options issued to Sanders Morris Harris Inc. pursuant to the terms of the Financing & Strategic Advisory Agreement dated June 12, 2004; and (g) shares of Common Stock issued pursuant to a public offering.

"Market Price" shall mean the price of one share of Common Stock determined as follows: (i) if the Common Stock is listed on the New York Stock Exchange, the American Stock Exchange, or the BBX, the closing bid price on such exchange on the date of valuation; (ii) if clause (i) does not apply and the Common Stock is listed on the Nasdaq National Market System, the Nasdaq Small-Cap Market, or the OTC Bulletin Board, the mean between the last reported bid price thereof on the date of valuation; (iii) if neither clause (i) nor (ii) apply but the Common Stock is quoted in the over-the-counter market, another recognized exchange or on the pink sheets, the mean between the last reported "bid" and "asked" prices thereof on the date of valuation; and (iv) if neither clause (i), (ii), or (iii) above applies, the fair market value thereof as determined by the Company's board of directors in good faith.

"Material Adverse Change" shall mean any single circumstance or event (or series of circumstances or events) having a material adverse effect on the assets, properties, financial condition, business operations, or prospects of the Company.

"Materials of Environmental Concern" shall mean chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum, and petroleum products.

"Maximum Rate" shall mean the maximum non-usurious rate of interest which, under all applicable statutes, rules and regulations, the Purchasers are permitted to contract for, charge, take, reserve, or receive on the Notes. If the statutes, rules, and regulations of the State of Texas are applicable for purposes of determining the maximum rate, then such term means the "weekly ceiling" from time to time in effect under Texas Finance Code ss.303.001 as limited by Texas Finance Code ss.303.009. The Company agrees that Chapter 346 of the Texas Finance Code, as amended (which regulates certain revolving credit loan accounts and revolving tri-party accounts), does not apply to the Note Agreement or Notes.

"Memorandum" shall mean the Private Placement Memorandum dated September 22, 2004, as may be hereafter amended, modified, or supplemented, relating to the offering and sale of the Notes.

"Noteholder" or "Noteholders" shall mean any Person in whose name at the time a particular Note shall be registered on the registry books of the Company maintained for that purpose in accordance with the terms of this Agreement.

"Notes" shall have the meaning given such term in Section 1 hereof.

"Officers' Certificate" means a certificate signed by the chairman of the board of directors or the president or a vice president, and by the treasurer, or the secretary of the Company, and delivered to the Agent.

"Permitted Debt" means (a) all indebtedness of the Company for money borrowed from and owed to any bank, savings, and loan association, or other financial institution that makes loans or investments as a part of its regular business and renewals, extensions, modifications, and refundings of any such indebtedness, (b) all indebtedness of the Company for money borrowed pursuant to a bridge financing on terms substantially similar to the terms of the Notes., and (c) all indebtedness assumed in any Qualified Merger or Acquisition.

"Person" shall mean and include an individual, a partnership, a corporation, a trust, a joint venture, an unincorporated organization, a government or any department or agency thereof, and any other entity.

"Qualified Merger or Acquisition" shall mean any merger, acquisition or consolidation transaction undertaken between the Company and any other entity so long as such transaction is a bona-fide arms length transaction approved by a disinterested board.

"SEC Filings" shall mean the Company's Form 10-K for the fiscal year ended September 30, 2003; the Company's Form 10-Q SBfor the quarter ended June 30, 2004; the Company's Current Report on Form 8-K filed on June 4, 2004; and the Company's information statement filed on June 29, 2004.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Senior Indebtedness" shall mean all indebtedness of the Company, whether outstanding at the time of execution of this Agreement or thereafter created, which is not by its express terms subordinated in right of payment to or on par with the Notes. Indebtedness means (i) all indebtedness for money borrowed, which is created, assumed, incurred, or guaranteed in any manner by the Company or for which the Company is otherwise responsible or liable or (ii) leases that are capitalized under generally accepted accounting principles.

"Subsidiary" shall mean any Person of which at the time of determination the party in question and/or one or more of its subsidiaries owns or controls directly or indirectly more than 50% of the shares of voting stock of such Person.

"Warrant" shall have the same meaning as described in the Memorandum which shall be issued upon conversion or exchange of the Notes.

16. **WAIVERS; MODIFICATIONS OF AGREEMENT.** Any provision in this Agreement to the contrary notwithstanding, changes in or additions to this Agreement may be made, and compliance with any covenant or condition herein set forth may be omitted, if the Company (a) shall obtain from the holders of record of Notes aggregating not less than 51% of the aggregate principal amount of the Notes at the time outstanding their consent thereto in writing and (b) shall deliver copies of such consent in writing to any such holders of record who did not execute the same; provided, however, that without the consent in writing of the holder of each Note affected thereby, no such consent shall be effective to reduce the principal of or rate of interest payable on, or to postpone any date fixed for the payment of principal of or any installment of interest on, any Note, to increase the percentage specified in Section 11 hereof of the principal amount of the Notes the holders of which may, in accordance with the provisions of such Section 11, accelerate the maturity of the Notes upon an Event of Default or to reduce the percentage of the principal amount of the Notes the consent of the holders of which shall be required under this Section 16.

17. **SURVIVAL OF COVENANTS, ETC.** All covenants, agreements, representations, and warranties made herein and in the Notes and in any certificate delivered pursuant hereto shall survive any investigation made by you and the execution and delivery to you of the Notes to be purchased by you and your payment therefor.

18. **BROKERS; ISSUANCE TAXES.** The Company will hold you free and harmless from any (a) claim, demand, liability for, or expense in connection with, any broker's or finders' fees or commissions claimed by any Person asserted to be acting on behalf of the Company in connection with this Agreement or the transactions contemplated herein and (b) taxes, if any, payable upon, or on account of, issuance of the Notes.

19. **GOVERNING LAW; VENUE.** THIS AGREEMENT AND THE NOTES ARE BEING DELIVERED IN TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAWS OF THE STATE OF TEXAS WITHOUT CONSIDERATION OF ITS CONFLICT OF LAW PROVISIONS. The Company hereby expressly and irrevocably agrees and consents that any suit, action or proceeding arising out of or relating to this Agreement, the Notes, or the transactions contemplated herein or therein may be instituted by any Noteholder in any State or Federal court sitting in Harris County, Texas, United States of America, and, by the execution and delivery of this Agreement, the Company expressly waives any objection that it may have now or hereafter to the laying of the venue or to the jurisdiction of any such suit, action or proceeding, and irrevocably submits generally and unconditionally to the jurisdiction of any such court in any such suit, action or proceeding.

20. **NOTICES.** Any notice, consent, request, or other communication required or permitted hereunder shall be in writing and shall be deemed given when either (a) personally delivered to the intended recipient or (b) sent, by certified or registered mail, return-receipt requested, addressed to the intended recipient as follows:

if to the Company to: 2408 Timberloch Place, Suite B-7
The Woodlands, TX 77380

Attn: David B. McWilliams, CEO

if to any of you, to the address given for such of you; if to any other Noteholder to the address of such holder given to the Company in accordance with

Section 8. Any Person (other than the Company) may change the address to which notice is to be sent pursuant to the preceding sentence by giving notice of such new address to the Company in accordance with this Section 20. The Company may change the address to which notice is to be sent hereunder by giving notice of such change, in accordance with this Section 20, to each Person against whom such change shall be effective. Any notice mailed as aforesaid shall, unless otherwise provided herein, be deemed given on the fifth day after deposited in the United States mail in accordance with the first sentence of this Section 20.

21. **PARTIES IN INTEREST.** All of the terms and provisions of this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

22. **BUSINESS DAYS.** Should any installment of the principal of or interest on any Note become due and payable upon a day other than a day on which national banks located in Texas are open for the conduct of banking business, the maturity thereof shall be extended to the next succeeding day upon which such banks are open for the conduct of banking business and, in the case of an installment of principal, interest shall be payable thereon at the rate per annum specified in such Note during such extension.

23. **HEADINGS.** The headings of the various sections and subsections hereof have been inserted for convenience of reference only and shall not be deemed to in any way modify any of the terms or provisions hereof.

24. **COUNTERPARTS.** This Agreement may be signed by each party hereto upon a separate copy, in which event all of said copies shall constitute a single counterpart of this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

25. **SEVERABILITY.** Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

26. **FINAL AGREEMENT.** This Agreement, together with those documents expressly referred to herein, constitutes the final agreement of the parties concerning the matters referred to herein, and supersedes all prior agreements and understandings.

27. SAVINGS CLAUSE. Regardless of any provision contained in the Notes or Note Agreement, Purchaser shall never be entitled to receive, collect or apply as interest (whether the termed interest herein or deemed to be interest by operation of law or judicial determination) on the Note any amount in excess of interest calculated at the Maximum Rate, and, in the event that any Purchaser ever receives, collects or applies as interest any such excess then the amount which would be excessive interest shall be deemed to be a partial prepayment of principal and treated hereunder as such; and, if the principal amount of the Note is paid in full, then any remaining excess shall forthwith be paid to the Company. In determining whether or not the interest paid or payable under any specific contingency exceeds interest calculated at the Maximum Rate, the Company and Purchasers shall, to the maximum extent permitted under applicable law: (a) characterize any non-principal payment as an expense, fee or premium rather than as interest; (B) exclude voluntary principal prepayments and the effects thereof; and (C) amortize, prorate, allocate, and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Note; provided that, if the Note is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds interest calculated at the Maximum Rate, then Purchaser shall refund to the Company the amount of such excess or credit the amount of such excess against the principal amount of the Note and, in such event, Purchasers shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving, or receiving interest in excess of interest calculated at the Maximum Rate.

28. TERMINATION. This Agreement will terminated upon the repayment or conversion of all obligations outstanding under the Notes.

[THE REMAINDER OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK.]

If the foregoing is in accordance with your understanding, please sign the form of confirmation and acceptance on the enclosed counterpart of this Agreement and return the same to the Company, whereupon this Agreement shall be a binding agreement between you and the Company.

Very truly yours, PharmaFrontiers Corp.

By:

David McWilliams, Chief Executive Officer

Dated as of _____, 2004

**I HEREBY ACCEPT AND AGREE TO THE
TERMS AND CONDITIONS CONTAINED IN
THIS NOTE AGREEMENT:**

By:

Name:

Title:

EXHIBIT "A"

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND IS TRANSFERABLE ONLY UPON THE CONDITIONS SPECIFIED IN THE NOTE AGREEMENT REFERRED TO HEREIN.

15% Exchangeable Convertible Subordinated Note Due November 30, 2005

No. \$ _____

PHARMAFRONTIERS CORP. a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company") for value received, hereby promises to pay to _____ or registered assigns, the principal sum of _____ Dollars (\$_____) on November 30, 2005, through the issuance of Common Stock valued at the Conversion Price, and all accrued interest on November 30, 2005, at 15% per annum, from the date of issuance of this Note until maturity, computed on the basis of a 360-day year of twelve 30-day months, and paid as set forth in the Note Agreement.

The principal amount of this Note is mandatorily (i) exchangeable for securities issued by the Company pursuant to the Equity Financing (as defined in the Note Agreement) provided that Equity Financing closes prior to maturity and (ii) convertible into Common Stock at maturity.

This Note is one of a duly authorized issue of Notes of the Company (which term includes any successor corporation under the Note Agreement hereinafter referred to) designated as its 15% Subordinated Notes due November 30, 2005 (the "Notes"), issued pursuant to a Note Agreement, dated as of _____, 2004 (the "Note Agreement"), between the Company and the purchasers of the Notes. The terms of this Note include those stated in the Note Agreement. Reference is hereby made to the Note Agreement and all supplements thereto for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, and the holders of the Notes and of the terms upon which the Notes are, and are to be, and delivered.

If an Event of Default shall occur and be continuing, the principal of all the Notes may be declared due and payable in the manner and with the effect provided in the Note Agreement.

The indebtedness evidenced by the Notes is, to the extent provided in the Note Agreement, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, as defined in the Note Agreement. Each holder of this Note, by accepting the same, agrees to and shall be bound by such provisions of the Note Agreement.

No reference herein to the Note Agreement and no provision of this Note or of the Note Agreement shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, places, and rate, and in the coin or currency, herein prescribed.

As provided in the Note Agreement and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Note register, upon surrender of this Note or registration of transfer at the offices or agencies of the Company in Houston, Texas duly endorsed by, or accompanied by a written instrument of transfer in substantially the form accompanying this Note duly executed by, the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

Prior to due presentment of this Note for registration of transfer, the Company, and any agent of the Company may treat the person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

All terms used in this Note which are defined in the Note Agreement shall have the meanings assigned to them in the Note Agreement. The Company will furnish to any Note holder of record upon written request without charge a copy of the Note Agreement. Requests may be made to the Company at 2408 Timberloch Place, Suite B-7, The Woodlands, TX 77380 (which address shall be subject to the change of address provisions of the Note Agreement).

IN WITNESS WHEREOF, PharmaFrontiers Corp. has caused this instrument to be executed in its corporate name.

Dated: _____, 2005

PharmaFrontiers Corp.

By: _____
David B. McWilliams, CEO

EXHIBIT B

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is by and between PharmaFrontiers Corp. (the "Company") and _____ (the "Holder"), dated as of _____, 2004.

WITNESSETH:

WHEREAS, the Company offered for sale of 15% Convertible Subordinated Notes due November 30, 2005 ("Notes");

WHEREAS, the Notes automatically convert into Common Stock upon the maturity of the Notes at November 30, 2005;

WHEREAS, interest on the Notes is payable on November 30, 2005, at the rate 15% per annum, in cash or at the option of the Company in shares of Common Stock valued at \$3.00 per share;

WHEREAS, in connection with the issuance of Common Stock upon conversion of the principal and for accrued interest of the Notes, the Company has agreed to grant one demand registration right to the Holder to register the resale of such Common Stock issued; and

WHEREAS, the parties desire to set forth the Holder's rights and the Company's obligations to cause the registration of the resale of shares pursuant to the Securities Act of 1933, as amended (the "Securities Act").

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE ONE

Registration Rights Agreement

SECTION 1.1 Registration Rights Available. The Company agrees to provide the Holder with respect to the shares underlying the principal amount of the Note and issued for accrued interest due on the Note ("Shares") and any other securities issued or issuable at any time or from time to time in respect of the Shares upon a stock split, stock dividend, recapitalization or other similar event involving the Company (collectively, the "Securities"): one demand secondary offering by means of registration pursuant to the Securities Act of 1933, as amended ("Securities Act"), subject to the provisions of this Agreement (the demand registration right is referred to herein as the "Registration Right").

SECTION 1.2 Demand Registration. With respect to Holder's right to one demand registration pursuant to Section 1.1, the parties agree as follows:

(a) Holder shall provide written notice to the Company indicating his intention to exercise the demand registration right on or after November 30, 2005, and on or before December 31, 2005. The Company shall promptly, and in any event within 90 days of receiving notice from the Holders, use its best efforts to file with the Securities and Exchange Commission (the "Commission") and cause to become effective, a registration statement on appropriate form relating to the offer and sale of the Common Stock by Holder. The Company shall use its best efforts to obtain effectiveness of such registration statement for the demand secondary offering requested under Section 1.1. The Company agrees to provide Holder with notice of the filing of such registration and of the filing of any amendments or supplements thereto.

(b) The Company agrees to maintain such registration statement in effect for the maximum period allowable under the regulations promulgated by the Commission then in effect.

(c) In any offering pursuant to this Section that becomes effective in which the Holder participates, the Company shall use its best efforts to keep available to the Holder a prospectus meeting the requirements of Section 10(a)(3) of the Securities Act and shall file all amendments and supplements under the Securities Act required for that purpose. In any offering pursuant to this Section the Company will, as soon as practicable, use its best efforts to effect such registration and use its best efforts to effect such qualification and compliance as may be so requested and as would permit or facilitate the distribution of such Securities, including, without limitation, registration under the Securities Act, appropriate qualifications under applicable blue-sky or other state securities laws, appropriate compliance with any other governmental requirements and listing on a national securities exchange on which the Common Stock is then listed or inter-dealer quotation system.

SECTION 1.3 Registration Procedure. With respect to each Registration Right, the following provisions shall apply:

(a) The Holder shall be obligated to furnish to the Company and the underwriters (if any) such information regarding the Securities and the proposed manner of distribution of the Securities as the Company and the underwriters (if any) may request in writing and as shall be required in connection with any registration, qualification or compliance referred to herein and shall otherwise cooperate with the Company and the underwriters (if any) in connection with such registration, qualification or compliance.

(b) With a view to making available the benefits of certain rules and regulations of the Securities and Exchange Commission (the "Commission"), which may at any time permit the sale of the Restricted Securities (used herein as defined in Rule 144 under the Securities Act) to the public without registration, the Company agrees to use its best lawful efforts to:

(i) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times during which the Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"); and

(ii) File with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at all times during which the Company is subject to such reporting requirements).

(c) All expenses (except for costs of any interim audit required by underwriters, any underwriting and selling discounts and commissions and legal fees for Holder's attorneys) of any registrations permitted pursuant to this Agreement and of all other offerings by the Company (including, but not limited to, the expenses of any qualifications under the blue-sky or other state securities laws and compliance with governmental requirements of preparing and filing any post-effective amendments required for the lawful distribution of the Securities to the public in connection with such registration, of supplying prospectuses, offering circulars or other documents) will be paid by the Company.

(d) In connection with the preparation and filing of a registration statement under the Securities Act pursuant to this Agreement, the Company will give the Holder, its counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary to conduct a reasonable investigation within the meaning of the Securities Act.

ARTICLE TWO

Indemnification

SECTION 2.1 Indemnification by the Company. In the event of any registration of the Securities of the Company under the Securities Act, the Company agrees to indemnify and hold harmless Holder and each other person who participates as an underwriter in the offering or sale of such securities against any and all claims, demands, losses, costs, expenses, obligations, liabilities, joint or several, damages, recoveries and deficiencies, including interest, penalties and attorneys' fees (collectively, "Claims"), to which Holder may become subject under the Securities Act or otherwise, insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based on any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which Holder's Securities were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse Holder and each such underwriter for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such Claim (or action or proceeding in respect thereof); provided that the Company shall not be liable in any such case to the extent that any such Claim (or action or proceeding in respect thereof) or expense arises out of or is based on an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance on and in conformity with written information furnished to the Company through an instrument duly executed by Holder specifically stating that it is for use in the preparation thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of Holder or any such underwriter and shall survive the transfer of the Securities by Holder.

SECTION 2.2 Indemnification by Holder. The Company may require, as a condition to including the Securities in any registration statement filed pursuant to this Agreement, that the Company shall have received an undertaking satisfactory to it from Holder, to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 2.1) the Company, each director of the Company, each officer of the Company and each other person, if any, who controls the Company, within the meaning of the Securities Act, with respect to any statement

or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance on and in conformity with written information furnished to the Company through an instrument duly executed by Holder specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Notwithstanding the foregoing, the maximum liability hereunder which any holder shall be required to suffer shall be limited to the net proceeds to such Holder from the Securities sold by such Holder in the offering. Such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of the Securities by Holder.

SECTION 2.3 Notices of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a Claim referred to in this Article Two, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under this Article Two, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnifying party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such Claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such Claim.

SECTION 2.4 Indemnification Payments. The indemnification required by this Article shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

ARTICLE THREE

Miscellaneous

SECTION 3.1 Consent to Amendments. Except as otherwise expressly provided herein, the provisions of this Agreement may be amended or waived only by the written agreement of the Company and the Holder of 51% or more of the shares of Common Stock sold pursuant to the Subscription Agreements and shall be effective only to the extent specifically set forth in such writing.

SECTION 3.2 Term of the Agreement. This Agreement shall terminate with respect to Holder on the earlier to occur of (i) the Securities having been registered as provided in Article One or (ii) November 30, 2007.

SECTION 3.3 Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto are transferable and will bind and inure to the benefit of the respective successors and assigns of the parties hereto, but only if so expressed in writing.

SECTION 3.4 Severability. Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

SECTION 3.5 Delays or Omissions. No failure to exercise or delay in the exercise of any right, power or remedy accruing to Holder on any breach or default of the Company under this Agreement shall impair any such right, power or remedy nor shall it be construed to be a waiver of any such breach or default.

SECTION 3.6 Remedies Cumulative. All remedies under this Agreement, or by law or otherwise afforded to any party hereto shall be cumulative and not alternative.

SECTION 3.7 Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement. Unless clearly denoted otherwise, any reference to Articles or Sections contained herein shall be to the Articles or Sections of this Agreement.

SECTION 3.8 Notices. Any notices required or permitted to be sent hereunder shall be delivered personally or mailed, certified mail, return receipt requested, to the following addresses, and shall be deemed to have been received on the day of personal delivery or within three business days after deposit in the mail, postage prepaid:

If to the Company, to:

David B. McWilliams, CEO

PharmaFrontiers Corp.

2408 Timberloch Place, Suite B-7
The Woodlands, TX 77380

If to Holder, to:

the address set forth below.

SECTION 3.9 Governing Law. The validity, meaning and effect of this Agreement shall be determined in accordance with the laws of the State of Texas applicable to contracts made and to be performed in that state.

SECTION 3.10 Final Agreement. This Agreement, together with those documents expressly referred to herein, constitutes the final agreement of the parties concerning the matters referred to herein, and supersedes all prior agreements and understandings.

SECTION 3.11 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one instrument.

The parties hereto have executed this Agreement as of the date first set forth above.

COMPANY:

PHARMAFRONTIERS CORP.

By:

David B. McWilliams, Chief Executive Officer

HOLDER:

By:

Name:

Address:

WARRANT AGREEMENT

This Warrant and the Shares of common stock issuable upon the exercise hereof have not been registered under either the Securities Act of 1933, as amended ("Act"), or applicable state securities laws ("State Acts") and shall not be sold, pledged, hypothecated, donated, or otherwise transferred (whether or not for consideration) by the Holder except upon the issuance to the Company of an opinion of counsel or submission to the Company of such evidence as may be satisfactory to counsel to the Company, in each such case, to the effect that any such transfer shall not be in violation of the Act and the State Acts.

WARRANT TO PURCHASE _____ SHARES OF COMMON STOCK

PHARMAFRONTIERS, CORP.
(a Texas corporation)

2408 Timberloch Place, Suite B-7
The Woodlands, TX 77380

Not Transferable or Exercisable Except
upon Conditions Herein Specified

PharmaFrontiers Corp., a Texas corporation ("Company"), hereby certifies that _____, its registered successors and permitted assigns registered on the books of the Company maintained for such purposes, as the registered holder hereof ("Holder"), for value received, is entitled to purchase from the Company the number of fully paid and non-assessable shares of Common Stock of the Company, \$.05 par value ("Shares" or "Common Stock"), stated above at the purchase price per Share set forth in Section 1(b) below (the number of Shares and Exercise Price being subject to adjustment as hereinafter provided) upon the terms and conditions herein provided.

TERMS

1. Exercise of Warrants.

(a) Subject to subsection (b) of this Section 1, upon presentation and surrender of this Warrant Agreement, with the attached Purchase Form duly executed, at the principal office of the Company, or at such other place as the Company may designate by notice to the Holder hereof, together with a certified or bank cashier's check payable to the order of the Company in the amount of the Exercise Price times the number of Shares being purchased (or in the case of exercise pursuant to Section 1(c)(i) or (ii), as set forth in such sections), the Company shall deliver to the Holder hereof, as promptly as practicable, certificates representing the Shares being purchased. This Warrant may be exercised in whole or in part; and, in case of exercise hereof in part only, the Company, upon surrender hereof, will deliver to the Holder a new Warrant Agreement or Warrant Agreements of like tenor entitling the Holder to purchase the number of Shares as to which this Warrant has not been exercised.

(b) This Warrant may be exercised at a price of \$_____per share (the "Exercise Price"); provided however, that the Exercise Price shall be subject to adjustment pursuant to Section 6(b). The Warrant shall expire upon the close of business on _____.

2. Exchange and Transfer of Warrant.

At any time prior to the exercise hereof, upon presentation and surrender to the Company, this Warrant (a) may be exchanged, alone or with other Warrants of like tenor registered in the name of the Holder, for another Warrant or other Warrants of like tenor in the name of such Holder exercisable for the same aggregate number of Shares as the Warrant or Warrants surrendered, but (b) may not be sold, transferred, hypothecated, or assigned, in whole or in part, without the prior written consent of the Company.

3. Rights and Obligations of Warrant Holder.

(a) The Holder of this Warrant Agreement shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or in equity; provided, however, that in the event that any certificate representing the Shares is issued to the Holder hereof upon exercise of this Warrant, such Holder shall, for all purposes, be deemed to have become the holder of record of such Shares on the date on which this Warrant Agreement, together with a duly executed Purchase Form, was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such Share certificate. The rights of the Holder of this Warrant are limited to those expressed herein and the Holder of this Warrant, by his acceptance hereof, consents to and agrees to be bound by and to comply with all the provisions of this Warrant Agreement, including, without limitation, all the obligations imposed upon the Holder hereof by Sections 2 and 5 hereof. In addition, the Holder of this Warrant Agreement, by accepting the same, agrees that the Company may deem and treat the person in whose name this Warrant Agreement is registered on the books of the Company maintained for such purposes as the absolute, true and lawful owner for all purposes whatsoever, notwithstanding any notation of ownership or other writing thereon, and the Company shall not be affected by any notice to the contrary.

(b) No Holder of this Warrant Agreement shall be entitled to vote or receive dividends or to be deemed the holder of Shares for any purpose, nor shall anything contained in this Warrant Agreement be construed to confer upon any Holder of this Warrant Agreement any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any action by the Company, whether upon any recapitalization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise, receive notice of meetings or other action affecting stockholders (except for notices provided for herein), receive dividends, subscription rights, or otherwise, until this Warrant shall have been exercised and the Shares purchasable upon the exercise thereof shall have become deliverable as provided herein; provided, however, that any such exercise on any date when the stock transfer books of the Company shall be closed shall constitute the person in whose name the certificate for those Shares are to be issued as the record holder thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open, and the Warrant surrendered shall not be deemed to have been exercised, in whole or in part as the case may be, until the next succeeding day on which stock transfer books are open for the purpose of determining entitlement to dividends on the Company's common stock.

4. Shares Underlying Warrant.

The Company covenants and agrees that all Shares delivered upon exercise of this Warrant shall, upon delivery and payment therefor, be duly and validly authorized and issued, fully paid and non-assessable, and free from all stamp taxes, liens and charges with respect to the purchase thereof.

5. Representations and Warranties of Holder; Disposition of Warrant or Shares. -----

(a) The Holder acknowledges that it has had access to all material information concerning the Company which it has requested. The Holder also acknowledges that it has had the opportunity to, and has to its satisfaction, questioned the officers of the Company with respect to this Warrant. The Holder is purchasing the Warrant and any Common Stock issued upon exercise thereof for investment for its own account only and not with a view to, or for resale in connection with, any "distribution" thereof in violation of the Act or State Acts. The Holder further represents that it understands that the Warrant and Common Stock to be issued upon exercise thereof have not been registered under the Act or State Acts by reason of specific exemptions therefrom, which exemptions depend upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. The Holder is an "accredited investor" as defined in Regulation D promulgated under the Act.

(b) The Holder of this Warrant Agreement and any transferee hereof or of the Shares issuable upon the exercise of the Warrant Agreement, by their acceptance hereof, hereby understand and agree that the Warrant, and the Shares issuable upon the exercise hereof, have not been registered under either the Act or State Acts and shall not be sold, pledged, hypothecated, or otherwise transferred (whether or not for consideration) except upon the issuance to the Company of an opinion of counsel favorable to the Company or its counsel or submission to the Company of such evidence as may be satisfactory to the Company or its counsel, in each such case, to the effect that any such transfer shall not be in violation of the Act or the State Acts. It shall be a condition to the transfer of this Warrant that any transferee of this Warrant deliver to the Company his written agreement to accept and be bound by all of the terms and conditions of this Warrant Agreement. The Holder acknowledges that the Company has not granted any registration rights hereunder.

(c) The stock certificates of the Company that will evidence the shares of Common Stock with respect to which this Warrant may be exercisable will be imprinted with a conspicuous legend in substantially the following form:

"The securities represented by this certificate have not been registered under either the Securities Act of 1933 ("Act") or the securities laws of any state ("State Acts"). Such securities shall not be sold, pledged, hypothecated, or otherwise transferred (whether or not for consideration) at any time whatsoever except upon registration or upon delivery to the Company of an opinion of its counsel satisfactory to the Company or its counsel that registration is not required for such transfer or the submission of such other evidence as may be satisfactory to the Company or its counsel to the effect that any such transfer shall not be in violation of the Act, State Acts or any rule or regulation promulgated thereunder."

(d) The Company is offering piggy-back registration rights to the Holder which rights are attached hereto as Exhibit "A."

6. Adjustments.

The number of Shares purchasable upon the exercise of each Warrant is subject to adjustment from time to time upon the occurrence of any of the events enumerated below:

(a) If at any time after the date of this Warrant and so long as this Warrant is outstanding, there is (i) a stock split, stock dividend, subdivision, or similar distribution with respect to the Common Stock, (ii) a combination of the Common Stock, or (iii) a sale or issuance of Common Stock, or exchangeable for its Common Stock, or any rights, options or warrants to subscribe for or to purchase of its Common Stock, then, in such event, the Exercise Price shall be adjusted in accordance with (b) below.

(b) Immediately upon the effective date of any event requiring adjustment pursuant to (a), the Company shall adjust the Exercise Price then in effect (to the nearest whole cent) as follows:

(i) If the Company (A) shall pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock payable in shares of Common Stock, (B) subdivide outstanding shares of Common Stock into a larger number of shares, (C) combine outstanding shares of Common Stock into a smaller number of shares, or (D) issue by reclassification of shares of Common Stock any shares of capital stock of the Company, the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this subparagraph (i) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(ii) If the Company shall distribute to all holders of Common Stock evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security (excluding those referred to in subparagraph (i) above), then in each such case the Exercise Price shall be determined by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the market price of Common Stock determined as of the record date mentioned above, and of which the numerator shall be such market price of the Common Stock on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of Common Stock as determined by the Company's board of directors in good faith; provided, however, that if the Holder disputes such amount, the Holder may select a nationally recognized or major regional investment banking firm or firm of independent certified public accountants of recognized standing (an "Appraiser") paid for by the Holder and the Company equally, in which case the fair market value shall be equal to the average of the determinations by the Company's board of directors and such Appraiser. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(iii) In case the Company (A) consolidates with or merges into any other entity and is not the continuing or surviving entity of such consolidation or merger, or (B) permits any other entity to consolidate with or merge into the Company and the Company is the continuing or surviving Company but, in connection with such consolidation or merger, the Common Stock is changed into or exchanged for common stock or other securities of any other entity or cash or any other assets, or (C) transfers all or substantially all of its properties and assets to any other entity, or (D) effects a reorganization or reclassification of the equity of the Company in such a way that holders of Common Stock shall be entitled to receive stock, securities, cash or assets with respect to or in exchange for Common Stock, then, and in each such case, proper provision shall be made so that, upon the exercise of the Warrant at any time after the consummation of such consolidation, merger, transfer, reorganization or reclassification, the Holder shall be entitled to receive (at the Exercise Price in effect for Common Stock issuable upon such exercise of the Warrant immediately prior to such consummation), in lieu of Common Stock issuable upon such exercise of the Warrant prior to such consummation, the stock and other securities, cash and assets to which the Holder would have been entitled upon such consummation if such Holder had so exercised the Warrant immediately prior thereto.

(c) Upon each adjustment of the Exercise Price pursuant to (b) above, the Warrant outstanding prior to such adjustment in the Exercise Price shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of shares of Common Stock (calculated to the nearest hundredth) obtained by (i) multiplying the number of shares of Common Stock issuable upon exercise of the Warrant prior to adjustment of the number of shares of Common Stock by the Exercise Price in effect prior to adjustment of the Exercise Price and (ii) dividing the product so obtained by the Exercise Price in effect after such adjustment of the exercise price.

(d) In case the Company (i) consolidates with or merges into any other entity and is not the continuing or surviving entity of such consolidation or merger, or (ii) permits any other entity to consolidate with or merge into the Company and the Company is the continuing or surviving Company but, in connection with such consolidation or merger, the Common Stock is changed into or exchanged for common stock or other securities of any other entity or cash or any other assets, or (iii) transfers all or substantially all of its properties and assets to any other entity, or (iv) effects a reorganization or reclassification of the equity of the Company in such a way that holders of Common Stock shall be entitled to receive stock, securities, cash or assets with respect to or in exchange for Common Stock, then, and in each such case, proper provision shall be made so that, upon the exercise of this Warrant at any time after the consummation of such consolidation, merger, transfer, reorganization or reclassification, the Holder shall be entitled to receive (at the aggregate Exercise Price in effect for Common Stock issuable upon such exercise of this Warrant immediately prior to such consummation), in lieu of Common Stock issuable upon such exercise of this Warrant prior to such consummation, the stock and other securities, cash and assets to which such Holder would have been entitled upon such consummation if such Holder had so exercised this Warrant immediately prior thereto.

7. Loss or Destruction.

Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant Agreement and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement or bond satisfactory in form, substance and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of this Warrant Agreement, the Company will execute and deliver, in lieu thereof, a new Warrant Agreement of like tenor.

8. Survival.

The various representations, warranties, rights and obligations of the Holder hereof as set forth herein shall survive the exercise of the Warrants represented hereby and the surrender of this Warrant Agreement.

9. Notices.

Whenever any notice, payment of any purchase price, or other communication is required to be given or delivered under the terms of this Warrant, it shall be in writing and delivered by hand delivery or United States registered or certified mail, return receipt requested, postage prepaid (or similar delivery if outside of the United States), and will be deemed to have been given or delivered on the date such notice, purchase price or other communication is so delivered or posted, as the case may be; and, if to the Company, it will be addressed to the address specified on the cover page hereof, and if to the Holder, it will be addressed to the registered Holder at its, his or his address as it appears on the books of the Company.

SIGNATURE PAGE
WARRANT AGREEMENT

If the foregoing is in accordance with your understanding, please sign the form of confirmation and acceptance on the enclosed counterpart of this Agreement and return the same to the Company, whereupon this Agreement shall be a binding agreement between you and the Company.

Very truly yours,

PharmaFrontiers Corp.

By:

David B. McWilliams Chief Executive Officer

I HEREBY ACCEPT AND AGREE TO THE TERMS AND CONDITIONS CONTAINED IN THIS WARRANT AGREEMENT:

By:

Name:

Title:

**BAYLOR COLLEGE OF MEDICINE
OPEXA PHARMACEUTICALS, INC.**

LICENSE AGREEMENT

This License Agreement (this "Agreement") is made and entered into on this 5th day of September, 2001 (the "Agreement Date"), by and between Baylor College of Medicine (hereinafter called "BAYLOR"), a Texas non-profit corporation having its principal place of business at One Baylor Plaza, Houston, Texas 77030, and Opexa Pharmaceuticals, a corporation organized under the laws of Delaware and having a principal place of business at 1709 Dryden Road, Suite 901, Houston, Texas 77030 and its Affiliates (hereinafter, collectively referred to as "OPEXA").

WITNESSETH :

WHEREAS, BAYLOR, by virtue of its relationship with its faculty, staff and students, and conveyances with the individuals listed on Schedule 1, and under and pursuant to the terms and provisions of its Policy on Inventions and Patents (the "Baylor Patent Policy"), a copy of which has been delivered to OPEXA, is the owner of certain right, title and interest in and to the Technology (as defined below); and

WHEREAS, BAYLOR desires to grant to OPEXA and OPEXA desires to obtain a worldwide license to employ the Technology and to make, use, sell, have made and otherwise market and commercialize Licensed Patent Pending Products and Licensed Patented Products; and

WHEREAS, BAYLOR is willing to negotiate a license for the rights to market and commercialize the Technology to OPEXA in exchange for the receipt of equity and other consideration as described herein;

NOW, THEREFORE, in consideration of the mutual promises and obligations hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto stipulate and agree as follows:

**ARTICLE 1
DEFINITIONS**

1.1 "Affiliate" shall mean any corporation, partnership, joint venture or other entity of which the common stock or other equity ownership thereof is fifty percent (50%) or more owned by OPEXA or BAYLOR.

1.2 "Baylor Patent Policy" is as defined in the first Whereas clause.

1.3 "Common Stock" is as defined in Paragraph 3.4.

1.4 "Confidential Information" shall mean any proprietary and secret ideas, proprietary technical information, know-how and proprietary commercial information or other similar proprietary information, which is reduced to writing and marked CONFIDENTIAL in writing on the document or, if orally disclosed, summarized in writing and delivered to the receiving party within thirty (30) days of disclosure, marked as CONFIDENTIAL. Neither Party shall have an obligation of confidentiality with respect to Confidential Information that:

- (i) at the time of its disclosure or thereafter is disclosed in a publicly available document through no fault of the receiving Party;
- (ii) at the time of its disclosure is, or thereafter becomes without fault of the receiving Party, part of the public domain;
- (iii) was in the possession of the receiving Party prior to disclosure by the disclosing Party hereunder and was not acquired directly or indirectly from any third party under obligation of confidentiality to the disclosing Party;
- (iv) subsequent to its disclosure, is obtained from a third party not subject to a contractual or fiduciary obligation for confidentiality to the disclosing Party;
- (v) is required by court or governmental order, law or regulation to be disclosed; or
- (vi) is disclosed pursuant to any research grant relating to the Technology from a non-commercial granting entity, such as grants from the United States Department of Health and Human Services and other governmental and private non-profit agencies; provided, however, that OPEXA be notified of the terms of such research grant applications.

1.5 "Developers" shall mean those individuals listed in Schedule 1.

1.6 "Developer's Agreement" shall mean agreements executed by BAYLOR, the Developers and OPEXA which discusses distribution policies of OPEXA stock and other aspects of such distribution, copies of which have been delivered to OPEXA.

1.7 "First Commercial Sale" shall mean the date on which OPEXA first transfers title to a Licensed Patent Pending Product or Licensed Patented Product to an independent third party for monetary consideration.

1.8 "Funded Technology" is as defined in Paragraph 7.1.

1.9 "Gross Sales" shall mean the gross amount of monies or cash equivalent or other consideration which is paid by unrelated third parties to OPEXA or sublicensees for the Licensed Patented Products or Licensed Patent Pending Products by sale, utilization or other mode of transfer. The term "Gross Sales" in the case of non-cash sales, shall mean the fair market value of all equivalent or other consideration received by OPEXA for the Licensed Patent Pending Products or Licensed Patented Products

1.10 "Improvements" shall mean any modifications, variations and improvements to the following aspects of the Technology;

- (i) Materials and procedures for Autologous T-cell vaccination for Multiple Sclerosis and other autoimmune disorders;
- (ii) T-cell receptor sequences and therapeutic-diagnostic products derived from them that direct T-cell antigen recognition specificity in Multiple Sclerosis and other autoimmune disorders;

(iii) Combinations of pregnancy-related hormones that suppress autoreactive T-cell migration, proliferation or activity against autoantigens in Multiple Sclerosis or other autoimmune disorders; and

(iv) Materials and procedures for development of a vaccine against human herpesvirus-6;

whether patentable or not, that during the two years between the Agreement Date and the second anniversary of the Agreement Date, are (i) conceived or reduced to practice, (ii) are owned by BAYLOR or become property of BAYLOR and
(iii) arise out of work performed in laboratory at BAYLOR that is under the direct supervision of the Developers.

1.11 "Indemnified Parties" is as defined in Paragraph 5.4.

1.12 "Legal Costs" shall mean all legal fees and expenses, filing or maintenance fees, assessments and all other reasonable costs and expenses related to prosecuting, obtaining and maintaining patent protection on the Patent Rights in the United States and foreign countries, including all costs reasonably incurred in filing continuations, continuations-in-part, divisionals or related applications and any re-examination or reissue proceedings.

1.13 "Licensed Patented Product" shall mean any product, process, or service using all or any part of the Technology that is made, used, marketed or sold in a country where the Technology is covered by a Valid Claim (as defined below).

1.14 "Licensed Patent Pending Product" shall mean any product, process, or service using all or any part of the Technology that is made, used, marketed or sold in a country where the Technology is covered by a Patent Pending Claim (as defined below).

1.15 "Licensed Patented Product Net Sales" shall mean that portion of Net Sales related to Licensed Patented Products.

1.16 "Licensed Patent Pending Product Net Sales" shall mean that portion of Net Sales related to Licensed Patent Pending Products.

1.17 "Net Sales" shall mean Gross Sales for the Licensed Patent Pending Products or Licensed Patented Products by sale, license or other mode of transfer, less all trade, quantity and cash discounts actually allowed, credits, and allowances actually granted on account of rejections, returns or billing errors, separately billed duties, transportation and insurance, taxes and other governmental charges actually paid.

1.18 "Patent Pending Claim" shall mean a claim of pending patent application included in the Patent Rights.

1.19 "Patent Rights" shall mean all patents to be filed relating to the Technology and all pending and issued United States patents and corresponding foreign patent applications or parts thereof listed in Schedule 2 and any and all divisions, reissues, re-examinations, renewals, continuations, continuations-in-part, and extensions thereof, and all other counterpart applications in all other countries and patents, inventor's certificates, utility models and the like issuing therefrom, which list shall be amended and updated from time to time.

1.20 "Party" shall mean either OPEXA or BAYLOR, and the "Parties" shall mean OPEXA and BAYLOR.

1.21 "Sublicensing Revenue" shall mean all (i) cash, (ii) sublicensing fees, including maintenance fees and milestones not listed in Article 3 and
(iii) all other payments and the cash equivalent thereof, which are paid to OPEXA by the sublicensees of its rights hereunder in consideration thereof, other than research and development money paid to OPEXA to conduct research at fair market value and consideration paid to OPEXA for shares of capital stock in OPEXA at the fair market value for said shares.

1.22 "Technology" shall mean and include the Patent Rights and non-patented technologies listed in Schedule 3, together with all know-how, information, processes, formulas, patterns, compilations, programs, devices, methods, techniques, products, data, preparations and usage information or materials and sources thereof, whether or not patentable, in each case that are related to, or pertain to, the Patent Rights and non-patented technologies listed on Schedule 3 and arise out of work performed in a laboratory at BAYLOR that is under the direct supervision of the Developers as of the Agreement Date. Technology shall also include the Improvements (as defined above), but shall not include (i) know-how, discoveries and inventions developed at BAYLOR by any individual(s) other than the Developers and (ii) know-how, discoveries and inventions developed at OPEXA solely by OPEXA employees.

1.23 "Term" is as defined in Paragraph 10.1.

1.24 "Valid Claim" shall mean a claim of an issued, unexpired patent included within the Patent Rights claiming an invention, which has not been revoked or held unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been disclaimed, denied or admitted to be invalid or unenforceable through reissue, disclaimer or otherwise.

ARTICLE 2

GRANT OF EXCLUSIVE LICENSE

2.1 License Grant. Subject to the reservations of rights set forth in Paragraph 2.2 and the terms of Paragraph 11.4, effective as of the Agreement Date, BAYLOR hereby grants to OPEXA an exclusive, worldwide right and license with rights to sublicense the Technology with rights to use, develop, make, have made, market, sell, offer to sell and otherwise commercially exploit the Technology, Licensed Patent Pending Products and Licensed Patented Products. OPEXA shall have the right to sublicense any of the rights granted under this Paragraph 2.1, provided that such sublicense shall be subject to and subordinate to the terms and conditions of this Agreement.

2.2 Restrictions on License. The grants in Paragraph 2.1 shall be further subject to, restricted by and non-exclusive with respect to:

(i) the use of the Technology by BAYLOR for non-commercial research, patient care solely as it relates to research and teaching purposes (so long as BAYLOR is in compliance with all laws and regulations regarding such use and with the consultation and approval of OPEXA), and other educationally related purposes;

(ii) the use of the Technology by the Developers for non-commercial research purposes at academic or research institutions;

(iii) any non-exclusive license of the Technology that BAYLOR grants to other academic or research institutions strictly for non-commercial research purposes (said non-exclusive research use license shall expressly prohibit the use of the Technology in human subjects); and

(iv) any non exclusive license of the Technology that BAYLOR is required by law or regulation to grant to the United States of America or to a foreign state pursuant to an existing or future treaty with the United States of America.

ARTICLE 3 CONSIDERATION

3.1 Royalties and Milestones. (a) In consideration of the grant of the exclusive licenses specified in Paragraph 2.1, OPEXA agrees to pay BAYLOR the following applicable royalties and milestones in accordance with the provisions set forth in Table 3.1 below and Paragraph 3.1 (b);

Table 3.1	Consideration
Financing Event/Value to BAYLOR	OPEXA Royalty and Payment Obligations to BAYLOR
Scenario 1: OPEXA closes on a financing event with capital raised from outside sources (other than BAYLOR) that generates \$_____ or more in equity value to BAYLOR within eighteen (18) months of the Agreement Date. For example: OPEXA closes on a financing round of \$_____ for a 40% ownership stake in the company. The value of the company would then be (5 million/0.4) = \$_____. The value to BAYLOR would then be value of the company multiplied by the percentage ownership retained by BAYLOR. In this case the value to BAYLOR would be (0.8)(0.6)(_____) = \$_____. - where (0.8 or 80%) reflects the initial BAYLOR ownership percentage of outstanding capital stock in OPEXA. Because the value to BAYLOR exceeds \$_____ in this example, the consideration terms of Scenario 1 would apply.	o _____% royalty on Net Sales of Licensed Patented Products where annual Gross Sales of said Licensed Patented Product is less than or equal to _____ (\$_____) dollars. This royalty rate applies to Net Sales of OPEXA, including Affiliates. This royalty rate shall not apply to Net Sales of OPEXA sublicensees. As stated below, OPEXA sublicensees shall pay a _____% royalty, regardless of product sales level. o _____% royalty on Net Sales of Licensed Patented Product(s) where annual Gross Sales of said Licensed Patented Product exceed _____ (\$_____) dollars. This royalty rate applies to Net Sales of OPEXA, including Affiliates. o 1% royalty on Net Sales of Licensed Patent Pending Product(s). This royalty rate applies to Net Sales of OPEXA, including Affiliates. o _____% royalty on Net Sales of Licensed Patented Products or Licensed Patent Pending Products sold by OPEXA sublicensees.
Scenario 2: OPEXA closes on a financing event with capital raised from outside sources (other than BAYLOR) that generates greater than \$_____, but less than \$_____ in equity value to BAYLOR within eighteen (18) months of the Agreement Date. For example: OPEXA closes on a financing round of \$_____ million for a 40% ownership stake in the company. The value of the company would then be (\$_____/0.4) = \$_____. The value to BAYLOR would then be: (0.8)(0.6)(_____) = \$_____. Because the value to BAYLOR is between \$_____ and \$_____ in this example, the consideration terms of Scenario 2 would apply.	o _____% royalty on Net Sales of Licensed Patented Products where annual Gross Sales of said Licensed Patented Product is less than or equal to _____ (\$_____) dollars. This royalty rate applies to Net Sales of OPEXA, its Affiliates, and sublicensees. o _____1% royalty on Net Sales of Licensed Patented Products where annual Gross Sales of said Licensed Patented Product exceed _____ (\$_____) dollars. This royalty rate applies to Net Sales of OPEXA, its Affiliates and sublicensees. o _____% royalty on Net Sales of Licensed Patent Pending Products. This royalty rate applies to Net Sales of OPEXA, its Affiliates and sublicensees. o One time milestone payment of _____ (\$_____) dollars upon the first FDA-approved sale by OPEXA, an Affiliate or sublicensee of a Licensed Patented Product or Licensed Patent Pending Product in the therapeutic field.

Scenario 3: OPEXA closes on a financing event with capital raised from outside sources (other than BAYLOR) that generates \$3 million or less in equity value to BAYLOR within one year of the Agreement Date.

For example: OPEXA closes on a financing round of \$_____ for a 50% ownership stake in the company. The value of the company is then $(\$_____/0.5) = \$_____$. The value to BAYLOR would then be: $(0.8)(0.5)(\$_____) = \$_____$. Therefore, the value to BAYLOR is under \$_____ and the consideration terms of Scenario 3 would apply.

- o _____% royalty on Net Sales of Licensed Patented Products by OPEXA, its Affiliates or sublicensees.
- o _____% royalty on Net Sales of Licensed Patent Pending Products by OPEXA, its Affiliates or sublicensees.
- o Milestone payments of _____ (\$_____) dollars upon the first FDA-approved sale of a Licensed Patent Pending Product or Licensed Patented Product by OPEXA, an Affiliate, or sublicensee in each of the following classes:
 - (i) Autologous T-cell vaccine for Multiple Sclerosis
 - (ii) Peptide-based vaccine for Multiple Sclerosis
 - (iii) Steroid hormone therapeutic product for Multiple Sclerosis
 - (iv) Vaccine or other prophylactic/therapeutic product based on human herpesvirus-6 (HHV-6) technology.
- o OPEXA shall pay all unreimbursed Legal Costs incurred by BAYLOR prior to the Agreement Date up to a maximum of \$_____.

(b) Notwithstanding anything in Paragraph 3.1 (a) to the contrary, in the event that OPEXA completes a financing covered by Scenario 3 in Paragraph 3.1

(a) within the time parameters set out therein, and thereafter completes an additional financing within the time parameters identified in Scenario 1 or 2 of Paragraph 3.1 (a), which additional financing, together with the initial financing covered by Scenario 3, meets the required financing level specified in either Scenario 1 or 2, then in such instance, the royalty payments and milestones specified in Scenario 1 or 2, as applicable, shall apply to all Net Sales of Licensed Patented Products and Licensed Patent Pending Products occurring after the date of such additional financing.

3.2 Common Stock. Since, but for the equity received hereunder, BAYLOR would have insisted upon and received a greater royalty and, in consideration and in exchange for (i) property constituting good and valuable consideration, including, but not limited to, the Technology, and (ii) the reduced royalty consideration provided in Table 3.1, the receipt and sufficiency of which are hereby acknowledged by OPEXA, OPEXA shall issue to BAYLOR one million, seven hundred thousand (1,700,000) shares of its common stock, \$0.001 par value (the "Common Stock").

3.3 Issuance of Common Stock. The Common Stock shall be divided and issued as described in Schedule 4.

3.4 Income Tax. Notwithstanding anything herein to the contrary, OPEXA shall not be responsible for any income tax payments required to be paid by BAYLOR on funds received from OPEXA under this Agreement.

ARTICLE 4
ACCOUNTING AND RECORDS

4.1 Payment and Reports. At the close of each quarter of OPEXA's fiscal year, the Net Sales for said quarter shall be computed, and the royalties earned thereon shall be paid to BAYLOR within sixty (60) days after the close of said quarter. With each payment, OPEXA shall furnish to BAYLOR a written accounting report related to said quarter stating the Net Sales and the reason for said payment, consideration due and consideration paid. Such report will include, where applicable, the OTA reference number(s) from Schedule 3 to which such payment shall be attributed and the percent attributed to each Technology if more than one (1) Technology is commercialized.

4.2 Interest Payments. In the event that any payment due hereunder is not made when due, the payment shall accrue interest beginning on the tenth day following the due date thereof, calculated at the annual rate of the sum of (i) ____ percent (___%) plus (ii) the prime interest rate quoted by The Wall Street Journal on the date said payment is due, the interest being compounded on the last day of each calendar quarter, provided, however, that in no event shall said annual interest rate exceed the maximum legal interest rate for corporations. Each such payment when made shall be accompanied by all interest so accrued. Said interest and the payment and acceptance thereof shall not negate or waive the right of BAYLOR to seek any other remedy, legal or equitable, to which it may be entitled because of the delinquency of any payment.

4.3 Currency Requirements. All payments due hereunder are expressed in and shall be paid in United States of America currency, without deduction of exchange, collection or other charges, to BAYLOR by check, or to the account of BAYLOR at such bank as BAYLOR may from time to time designate by notice to OPEXA. OPEXA shall use foreign currency exchange rates published in The Wall Street Journal on the last day of the calendar quarter that said payment is due.

4.4 Record and Audits. OPEXA agrees to maintain written records with respect to its operations pursuant to this Agreement in sufficient detail to enable BAYLOR or its designated accountants to compute the amount of consideration payable to BAYLOR. During the Term and for a period of two (2) years thereafter, OPEXA agrees to permit an accountant selected and paid by BAYLOR and reasonably acceptable to OPEXA to have access during ordinary business hours to such records as are maintained by OPEXA as may be necessary, in the opinion of such accountant, to determine the correctness of any report and/or payment made under this Agreement, provided, however, that such examination shall not take place more than once per year. In the event that the audit reveals an underpayment of royalty by more than five percent (5%), the cost of the audit shall be paid by OPEXA. If the underpayment is less than five percent (5%) but more than two percent (2%), OPEXA and BAYLOR shall each pay fifty percent (50%) of the cost of the independent audit. Such accountant shall maintain in confidence, and shall not disclose to BAYLOR, any information concerning OPEXA or its operations or properties other than information directly relating to the correctness of such reports and payments.

4.5 Annual Report. On or about the anniversary of the Agreement Date and thereafter throughout the Term, or at such time as an annual report to shareholders is delivered, OPEXA shall deliver to BAYLOR a written annual report as to: (i) the efforts and accomplishments of OPEXA and each of its sublicensees during the preceding year in developing and commercializing Licensed Patent Pending Products and/or Licensed Patented Products in every country in which it or its sublicensees shall have developed and/or sold Licensed Patent Pending Products and/or Licensed Patented Products; (ii) the status of scientific and/or clinical trials, if any, on Licensed Patent Pending Products and/or Licensed Patented Products; (iii) the activities of OPEXA, if any, with respect to the filing, prosecution, obtaining, and maintenance of patents in the United States and any foreign countries in which such protection has been sought on the Patent Rights, as provided in Article 6; and (iv) the obtaining of regulatory approvals in the United States and foreign countries for the advertising, use and sale of Licensed Patent Pending Products and/or Licensed Products.

4.6 Payment Address. All payments and reports shall be sent to the address listed in Paragraph 15.1.

ARTICLE 5
WARRANTIES, REPRESENTATIONS, INDEMNITY AND INSURANCE

5.1 BAYLOR Warranties. (a) BAYLOR hereby represents and warrants that:

(i) to the best of its knowledge, other than the grants set forth herein, including, without limitation, for or to the United States of America, or for or to a foreign state, it has not encumbered, restricted, transferred or otherwise burdened the Technology;

(ii) the execution, delivery and performance of this Agreement by BAYLOR and the consideration provided for herein has been duly authorized by all necessary BAYLOR actions and officials;

(iii) it has the full power and authority to enter into and carry out the obligations of this Agreement.

(B) WITH THE EXCEPTION OF PARAGRAPH 5.1(a), BAYLOR MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF FITNESS OR MERCHANTABILITY, REGARDING OR WITH RESPECT TO THE TECHNOLOGY, LICENSED PATENT PENDING PRODUCTS OR LICENSED PATENTED PRODUCTS AND BAYLOR MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, OF THE PATENTABILITY, USE OR OTHER APPLICATION OF THE TECHNOLOGY, LICENSED PATENT PENDING PRODUCTS OR LICENSED PATENTED PRODUCTS OR OF THE ENFORCEABILITY OF ANY PATENTS ISSUING THEREUPON, IF ANY, OR THAT THE TECHNOLOGY, LICENSED PATENT PENDING PRODUCTS OR LICENSED PATENTED PRODUCTS ARE OR SHALL BE FREE FROM INFRINGEMENT OF ANY PATENT OR OTHER RIGHTS OF THIRD PARTIES AND BAYLOR MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, AS TO THE LIKELIHOOD OF THE SUCCESS OF ANY RESEARCH, DEVELOPMENT, TESTING, MARKETING OR OTHER UTILIZATION OF THE TECHNOLOGY.

(C) NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, (A) IN NO EVENT SHALL ANY PARTY'S LIABILITY OF ANY KIND INCLUDE ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL LOSSES OR DAMAGES, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; (B) IN NO CASE SHALL BAYLOR'S LIABILITY FOR DAMAGES OF ANY TYPE EXCEED THE TOTAL ROYALTIES WHICH HAVE ACTUALLY BEEN PAID TO BAYLOR BY OPEXA AS OF THE DATE OF THE FILING OF THE ACTION AGAINST BAYLOR WHICH RESULTS IN THE SETTLEMENT OR AWARD OF DAMAGES.

5.2 OPEXA Warranties. OPEXA hereby represents and warrants that:

(a) it is a corporation duly organized and in good standing under the laws of the State of Delaware;

(b) it is qualified to do business and in good standing in the State of Texas and elsewhere as the nature of its business and properties so require;

(c) the execution, delivery and performance of this Agreement by OPEXA and the consideration provided for herein has been duly authorized by all necessary corporate action;

(d) it has the full power and authority to enter into and carry out its obligations under this Agreement; and

(e) the Common Stock to be issued pursuant to this Agreement has been duly authorized and upon issuance, pursuant to the terms hereof and for the consideration herein set forth, will be validly issued, fully paid and non-assessable.

5.3 Indemnification for Breach of Warranty. OPEXA agrees to indemnify and hold BAYLOR and its officers, trustees, faculty, employees, agents and representatives (the "Indemnified Parties") harmless from any liabilities, costs and expenses (including attorneys' fees and expenses), obligations or causes of action arising out of or related to any breach of the representations and warranties made by OPEXA herein.

5.4 Indemnification of BAYLOR re: Technology. OPEXA agrees to protect, defend, indemnify and hold BAYLOR, each of the entities with which it is or will be in the future affiliated with respect to the invention or development of Technology, and each of BAYLOR's, officers, trustees, faculty, employees, agents, representatives, and each of them ("the Indemnified Parties") harmless from and against, and to pay any and all losses, liabilities, claims, demands, causes of action, lawsuits, or other proceedings (whether in contract, tort, strict liability or otherwise), fines, assessments, damages or any other amounts of whatever nature that any of the Indemnified Parties may sustain or incur ("Claims"), including all reasonable attorneys' fees and court costs, as a consequence of any third party's (including, but not limited to, OPEXA's officers, directors, employees, agents, consultants, representatives or servants) claims and demands arising from the use, testing, operation, sale or manufacture of the Technology or Licensed Patent Pending Products or Licensed Patented Products by OPEXA or its assignees or sublicensees even though such Claims result in whole or in part from the negligence of any of the Indemnified Parties or are based upon doctrines of strict liability or product liability; provided, however, that such indemnity shall not apply to any Claims arising from the gross negligence or intentional misconduct of any Indemnified Party.

5.5 Participation in Defense. (a) BAYLOR will promptly notify OPEXA in writing of notice of any claims or the commencement of any action, if a claim in respect thereof is to be made under Paragraph 5.4. BAYLOR's failure to notify OPEXA will not relieve OPEXA from any liability to BAYLOR except to the extent any BAYLOR delay in notifying OPEXA causes such damages. After receiving notice of said action, OPEXA is entitled to participate in the defense therein, and may elect to assume the defense thereof by promptly notifying the Indemnified Party in writing and by selecting counsel reasonably satisfactory to such Indemnified Party. After BAYLOR has received notice of OPEXA's election to assume the defense of said action and has approved OPEXA's counsel, OPEXA will not be liable to BAYLOR under Paragraph 5.4 for any legal or other expenses subsequently incurred by BAYLOR in connection with the defense thereof unless (i) BAYLOR has reasonably concluded that there may be legal defenses available to it that are different from or additional to those available to OPEXA, in which case such BAYLOR shall have the right to select separate counsel to assume said legal defenses and to otherwise participate in the defense of said action on behalf of BAYLOR, (ii) OPEXA shall not have employed counsel reasonably satisfactory to BAYLOR to represent BAYLOR within a reasonable time after notice of commencement of the action or (iii) OPEXA has authorized the employment of counsel for BAYLOR at the expense of OPEXA.

(b) Neither BAYLOR nor OPEXA shall settle any action covered by Paragraph 5.4 without first obtaining the consent of the other Party, which consent will not be unreasonably withheld. Should a controversy or dispute arise between the Parties regarding a decision to settle an action covered by Paragraph 5.4, the Parties then agree that the dispute shall be resolved according to the mediation and arbitration procedures described in Article 17 of this Agreement.

(c) OPEXA's indemnity obligations under this Agreement shall survive the termination of this Agreement, regardless of how this Agreement is terminated.

5.6 Insurance.

5.6.1 Requirements. During the Term, OPEXA shall maintain in full force and effect, and at levels that are reasonable and consistent with industry standards for corporations that are developing or marketing products for human clinical applications, policies of:

(i) General liability insurance (with Broad Form General Liability endorsement) with limits of not less than one million dollars (\$1,000,000) per occurrence with an annual aggregate of two million dollars (\$2,000,000);

(ii) Clinical trials insurance (in the event that OPEXA uses any Licensed Patented Product(s) or Licensed Patent Pending Product(s) in human clinical trials) with limits of not less than one million dollars (\$1,000,000) per occurrence with an annual aggregate of five million dollars (\$5,000,000).

(iii) Products liability insurance (in the event that OPEXA sells any Licensed Patented Product(s) or Licensed Patent Pending Product(s)) with limits of not less than three million dollars (\$3,000,000) per occurrence with an annual aggregate of twenty million dollars (\$20,000,000). OPEXA shall notify BAYLOR in writing prior to the sale of any Licensed Patented Product(s) or Licensed Patent Pending Product(s) that it has obtained products liability coverage that meets or exceeds these requirements.

In all cases such coverage(s) shall be purchased from a carrier or carriers reasonably deemed acceptable to BAYLOR and shall name BAYLOR as an additional insured. Upon request by BAYLOR, OPEXA shall provide to BAYLOR copies of said policies of insurance.

5.6.2 Annual Meeting. On or about the anniversary of the Agreement Date and thereafter throughout the Term, for as long as BAYLOR owns stock in OPEXA or until OPEXA becomes a public company (whichever occurs first), senior executives from each Party shall meet to discuss and assess OPEXA's insurance coverage levels.

ARTICLE 6 PROTECTION OF PROPERTY RIGHTS

6.1 Responsibility for Patent Prosecution. From the Agreement Date and for the Term of this Agreement, OPEXA shall have primary responsibility using patent counsel of its choice reasonably acceptable to BAYLOR, for deciding whether to file United States and foreign patent applications, continue prosecution of any patent applications or maintain any patent application or patent regarding the Technology licensed hereunder, except that BAYLOR may assume responsibility at its sole expense for pursuing any protection which OPEXA declines to prosecute pursuant to Paragraph 6.2 of this Agreement.

6.2 Notification of Intent Not to Pursue. During the Term, in the event that OPEXA decides not to file any or all United States and foreign applications or to continue prosecution of a patent application to issuance or maintain any United States or foreign patent application or patent, OPEXA shall timely notify BAYLOR in writing in order that BAYLOR may file said United States and foreign applications and continue said prosecution or maintenance of such patent applications at its own expense. OPEXA's right under this Agreement to practice the invention under said patent or patent application shall immediately terminate upon OPEXA ceasing to pay such costs. If OPEXA fails to notify BAYLOR in sufficient time for BAYLOR to assume the cost, OPEXA shall be considered in default of this Agreement.

6.3 Prosecution of Patent Applications. During the Term, subject to Paragraphs 6.1 and 6.2 above, OPEXA agrees to prosecute with good faith and due diligence all such patent applications and to take all actions reasonably necessary to maintain and enforce the patents and proprietary rights in and to the Technology.

6.4 Continuing Obligation to Inform. During the Term, OPEXA shall instruct counsel for OPEXA to keep BAYLOR reasonably informed, at OPEXA's expense, of prosecutions pursuant to this Article 6 including submitting to BAYLOR copies of all official actions and responses thereto.

6.5 Cooperation. BAYLOR agrees to cooperate with OPEXA to whatever extent is necessary to procure patent protection of any rights, including fully agreeing to execute any and all documents to give OPEXA the full benefit of the licenses granted herein.

6.6 Confidentiality. Each Party shall use its best efforts to maintain and assure the confidentiality of the Confidential Information disclosed to it by the other Party hereto.

6.7 Allowed Disclosure. Notwithstanding the foregoing, the Parties understand and agree that OPEXA may, to the extent it deems necessary or appropriate, disclose the Technology to potential and existing consultants, employees, board members, licensees, purchasers, investors, joint venturers and the like, but OPEXA agrees to use reasonable efforts to make such disclosures subject to a satisfactory confidentiality agreement.

ARTICLE 7 RIGHTS IN ADDITIONAL RESEARCH

7.1 The Parties acknowledge that OPEXA may support research on the Technology in laboratories and facilities at BAYLOR that are under the direct personal supervision of the Developers and that said research may result in discoveries or inventions ("Funded Technology") that are not included within the definition of Technology transferred by this Agreement. Nothing in this Agreement shall be deemed to allocate rights or ownership of any Funded Technology, and any rights to Funded Technology shall be determined by a separate written agreement.

ARTICLE 8 INFRINGEMENT

8.1 Actions Based on Infringement. Each Party shall promptly inform the other of any suspected infringement of any licensed Patent Rights or misuse, misappropriation, theft or breach of confidence of other proprietary rights in the Technology by a third party, and with respect to such activities as are suspected, BAYLOR and OPEXA each shall have the right to institute an action for infringement, misuse, misappropriation, theft or breach of confidence of the proprietary rights against such third party in accordance with the following:

(a) If BAYLOR and OPEXA agree to institute suit jointly, the suit shall be brought in both their names and all of the out-of-pocket costs and legal fees relative to such procedures shall be borne by OPEXA. OPEXA shall exercise control over such action; provided, however, that BAYLOR may, if it so desires, be represented by counsel of its own selection, at its own expense.

(b) If BAYLOR or OPEXA, as the case may be, decides not to take action, then the other Party may do so in its own name and at its own cost.

(c) Should either BAYLOR or OPEXA commence suit under the provisions of this Article 8 and thereafter elect to abandon the same, it shall give timely notice to the other Party who may, if it so desires, continue prosecution of such suit at such continuing Party's sole expense.

(d) All recoveries, whether by judgment, award, decree or settlements, from infringement or misuse of licensed Technology shall be divided as follows:

(i) the Party bringing the action or proceeding shall first recover an amount equal to the costs and expenses incurred by such Party directly related to the prosecution of such action or proceeding and (ii) the remainder shall be divided as follows: (A) in the event that OPEXA instituted the suit or otherwise handled the matter, the recovery shall be retained by OPEXA, subject to the royalty obligations hereunder, and (B) in the event that BAYLOR instituted the suit or otherwise handled the matter, the recovery shall be retained by BAYLOR.

8.2 Settlement. Neither BAYLOR nor OPEXA shall settle any action covered by this Article 8 without first obtaining the consent of the other Party, which consent will not be unreasonably withheld.

8.3 Liability for Losses. BAYLOR shall not be liable for any losses incurred as the result of an action for infringement brought against OPEXA as the result of OPEXA's exercise of any right granted under this Agreement. The decision to defend or not defend shall be in OPEXA's sole discretion.

8.4 Obligation to Inform. The Parties shall keep one another informed of the status of, and their respective activities regarding any litigation as described herein.

ARTICLE 9 INDEPENDENT CONTRACTOR STATUS

9.1 Parties are Independent Contractors. The Parties hereby acknowledge and agree that each is an independent contractor and that neither Party shall be considered to be the agent, representative, master or servant of the other Party for any purpose whatsoever, and that neither Party has any authority to enter into a contract, to assume any obligation or to give warranties or representations on behalf of the other Party. Nothing in this relationship shall be construed to create a relationship of joint ventures, partnerships, fiduciary or other similar relationships between the Parties.

ARTICLE 10 TERM AND EXPIRATION

10.1 Term of License. Unless sooner terminated as otherwise provided in Article 11, the term of the license to employ Technology, Licensed Patent Pending Products and/or Licensed Patented Products or other Patent Rights granted herein as part of Article 2 (the "Term") shall expire on a country-by-country basis, on the date of expiration of the last of the Patent Rights to expire.

ARTICLE 11 TERMINATION

11.1 Automatic Termination. This Agreement shall be terminated automatically in any one or more of the following circumstances:

(a) the assets of OPEXA are seized or attached, in conjunction with any action against them by any third party, and such seizure or attachment is not abated within ninety (90) days;

(b) OPEXA is dissolved, or a sale of all or substantially all of the assets of OPEXA pursuant to a liquidation not approved in writing by BAYLOR is made;

(c) OPEXA assigns or attempts to assign any rights under this Agreement in breach of Paragraph 13.1,

provided, however, that the provisions of Paragraph 11.1(c) shall terminate at such time that the aggregate of OPEXA's stated capital and capital surplus accounts equals or exceeds two million dollars (\$2,000,000), and shall not thereafter be applicable notwithstanding a subsequent decrease in such accounts; or

(d) OPEXA licenses or attempts to license any rights under this Agreement in breach of Paragraph 13.2,

provided, however, that the provisions of Paragraph 11.1(d) shall terminate at such time that the aggregate of OPEXA's stated capital and capital surplus accounts equals or exceeds five hundred thousand dollars (\$500,000), and shall not thereafter be applicable notwithstanding a subsequent decrease in such accounts.

11.2 Termination by BAYLOR. BAYLOR may terminate this Agreement if OPEXA fails to perform any of its obligations under this Agreement and fails to remedy said breach within sixty (60) days after being given written notice of the specific failure or default and termination by BAYLOR, unless such breach is not capable of being cured within such time period, in which event this Agreement shall not terminate so long as OPEXA is pursuing a cure of such breach in a timely manner and can demonstrate that it is taking all diligent actions possible to cure the breach. If the breach is disputed, the parties agree to arbitrate such dispute in accordance with the terms of the Agreement.

11.3 Termination by OPEXA. OPEXA, upon ninety (90) days prior written notice to BAYLOR, may terminate this Agreement with or without cause.

11.4 Effects of Termination. In the event that this Agreement is terminated for any reason in any country covered by the terms of this Agreement:

(a) any and all rights in and to the Technology in such country shall revert to BAYLOR;

(b) all grants and licenses made by BAYLOR to OPEXA pursuant to this Agreement in such country shall automatically terminate;

- (c) OPEXA will deliver to BAYLOR within ten (10) days of termination all copies in its possession or control of all documents and other tangible information in such country that contain the Technology;
- (d) OPEXA agrees to execute all instruments as BAYLOR may reasonably request that are necessary to reinvest any licensed rights in BAYLOR in such country;
- (e) OPEXA, subject to Article 6, shall have an obligation to maintain the confidentiality of all Technology in such country;
- (f) OPEXA will not use any Confidential Information regarding non-patented Technology in such country for a period of five (5) years after termination of this Agreement;
- (g) OPEXA shall have thirty (30) days to complete the manufacture and ninety (90) days to complete the sale or license of any Licensed Patented Products and Licensed Patent Pending Products in stock or in the course of manufacture at the time of termination in such country, all subject, however, to payments of royalty and accounting as provided herein, even if such royalty obligations arise from transactions subsequent to the effective date of termination;
- (h) OPEXA's obligation to pay royalties, keep records and allow a final audit shall survive termination in such country;
- (i) The Common Stock issued pursuant to this Agreement or the ownership thereof shall not be affected by any termination in such country, regardless of the reason for, or the timing of, such termination;
- (j) Except as expressly provided herein, no Party hereunder shall be discharged or relieved from any liability or obligation existing prior to such termination in such country; and
- (k) Upon termination of this License Agreement in such country, all sublicenses shall automatically terminate. BAYLOR agrees to enter into good faith negotiations with the sublicensees to establish the terms and conditions of a license agreement between BAYLOR and such sublicensee.

ARTICLE 12

GOVERNMENTAL COMPLIANCE

12.1 Compliance with All Laws. OPEXA shall at all times during the term of this Agreement and for so long as it shall sell Licensed Patented Products or Licensed Patent Pending Products comply and cause its sublicensees to comply with all local, state, federal and foreign formalities, laws, orders, rules, decrees or regulations that may control the import, export, manufacture, use or sale of Licensed Patented Products or Licensed Patent Pending Products or any other activity undertaken pursuant to this Agreement.

12.2 OPEXA Requirements. OPEXA understands and agrees that before BAYLOR shall be required to perform any obligation hereunder that shall be subject to local, state, federal and foreign formalities, laws, orders, decrees or regulations, OPEXA shall first provide BAYLOR with any letter of assurance or other certification that may be required to comply with the formalities, laws, decrees, rules, orders or regulations of any agency or instrumentality having jurisdiction. For example and not by limitation, this includes United States import and export regulations, Food & Drug Administration regulations, Department of Agriculture regulations, environmental regulations and recombinant DNA regulations.

12.3 Failure to Obtain Governmental Approval. Inability or failure, if any, of OPEXA to secure any necessary government license or approval shall not entitle OPEXA to terminate this Agreement or to obtain any form of relief, credit, rebate or recovery from BAYLOR.

12.4 Expenses. During the Term, OPEXA shall be responsible for any and all expenses, costs, fees, duties or taxes relating to the Technology, Licensed Patent Pending Products, and/or Licensed Patented Products which are reasonably necessary to comply with government orders, formalities, rules, regulations and laws.

12.5 Requirement for U.S. Manufacture. OPEXA agrees that Licensed Patented Products and/or Licensed Patent Pending Products leased or sold in the United States shall be manufactured substantially in the United States.

ARTICLE 13 ASSIGNMENT AND LICENSING

13.1 Assignment Requirements. Until the aggregate of OPEXA's stated capital and capital surplus accounts equals or exceeds two million dollars (\$2,000,000), OPEXA may not assign or attempt to assign any rights under this Agreement. Except as limited by this Paragraph 13.1 hereof, a sale by OPEXA of all or substantially all of its assets, or merger or other consolidation shall not constitute an assignment for purposes hereof, and OPEXA shall be free to enter into any such sale, merger or other consolidation, so long as the successor entity acknowledges its consent and agreement to the terms hereof in writing.

13.2 Sublicense Requirements. Until the aggregate of OPEXA's stated capital and capital surplus accounts equals or exceeds five hundred thousand dollars (\$500,000), OPEXA may not sublicense or attempt to sublicense any rights under this Agreement without the prior written approval of BAYLOR, with respect to which BAYLOR and OPEXA will negotiate in good faith.

13.3 Consistent Sublicenses. All sublicenses granted by OPEXA of its rights hereunder shall be subject to the terms of this Agreement. OPEXA shall be responsible for its sublicensees and shall not grant any rights which are inconsistent with the rights granted to and obligations of OPEXA hereunder. Any act or omission of a sublicensee which would be a breach of this Agreement if performed by OPEXA shall be deemed to be a breach by OPEXA of this Agreement, provided that BAYLOR shall give OPEXA and sublicensee notice of any such breach or alleged breach hereof and an opportunity to cure such breach pursuant to the terms of Paragraph 11.2 herein. Each sublicense agreement granted by OPEXA shall include an audit right by BAYLOR of the same scope as provided in Article 4 hereof with respect to OPEXA. OPEXA shall give BAYLOR prompt notification of the identity and address of each sublicensee with whom it concludes a sublicense agreement and shall supply BAYLOR with a copy of each such sublicense agreement.

13.4 Pre-Existing Agreements. This Agreement shall not supersede any preexisting agreement BAYLOR has with a third party in the event that this Agreement is assigned by OPEXA to that third party, even if BAYLOR has consented to the assignment.

13.5 BAYLOR Assignment Rights. BAYLOR may assign its rights hereunder, including the right to receive the consideration (equity and monetary) for the licenses herein granted, to its Affiliates, or to such other parties as may be entitled to receive or exercise same under the Baylor Patent Policy.

ARTICLE 14 PUBLICITY

14.1 Use of Names. Neither Party shall use the name, logotypes or symbols of the other Party or the name of any employee, faculty, staff, affiliate or associate of the other Party for publication or advertising purposes, except with the written consent of the other Party.

ARTICLE 15 ADDRESSES

15.1 Payments. All payments shall be made payable to "Baylor College of Medicine" and all payments and reports shall be sent to the address below:

BAYLOR Tax ID #: 74-1613878

Director, Office of Technology Administration Baylor College of Medicine
One Baylor Plaza, BCM-D, 600D
Houston, TX 77030

15.2 Notices. All notices or other communication pursuant to this Agreement shall be sufficiently made or given on the date of mailing if sent to such Party by United States Postal Service certified mail, return receipt requested, postage prepaid, or via overnight courier, addressed to it at its address below or as it shall designate by written notice given to the other Party:

In the case of BAYLOR:
Senior Vice President & General Counsel

Baylor College of Medicine
One Baylor Plaza
Houston, TX 77030

In the case of OPEXA:
Michael Redman, President
Opexa Pharmaceuticals, Inc.
1709 Dryden Road, Suite 901
Houston, TX 77030

With a copy to:
Director, Office of Technology
Administration
Baylor College of Medicine
One Baylor Plaza, BCM-D, 600D
Houston, TX 77030

With a copy to:
Jeffrey R. Harder
Andrews & Kurth, L.L.P.
2170 Buckthorne Place, Suite 150
The Woodlands, Texas 77381

ARTICLE 16 BOARD SEAT

16.1 BCMT Board Seat. A representative from BCM Technologies, BAYLOR's venture development subsidiary, shall also be a director of the OPEXA's Board of Directors as long as BCM Technologies owns stock in OPEXA or until OPEXA becomes a public company, whichever comes first.

16.2 BAYLOR Board Seat. A representative from BAYLOR shall also be a director of the OPEXA's Board of Directors as long as BAYLOR owns stock in OPEXA or until OPEXA becomes a public company, whichever comes first. The Parties agree that Dr. Jingwu Zang Zhang, M.D., shall fill such position for so long as he is affiliated with BAYLOR, unless the Parties agree otherwise.

ARTICLE 17 ARBITRATION

17.1 Amicable Resolution. The Parties shall attempt to settle any controversy between them amicably. To this end, a senior executive from each Party shall consult and negotiate to reach a solution. The Parties agree that the period of amicable resolution shall toll any otherwise applicable statute of limitations. However, nothing in this clause shall preclude any Party from commencing mediation if said negotiations do not result in a signed written settlement agreement within thirty (30) days after written notice that these amicable resolution negotiations have commenced.

17.2. Mediation. If a controversy arises out of or relates to this agreement, or the breach thereof, and if the controversy cannot be settled through amicable resolution, the Parties agree to try in good faith to settle the controversy by mediation before resorting to final and binding arbitration. The Party seeking mediation shall propose five mediators, each of whom shall be a lawyer licensed to practice by the state of Texas, having practiced actively in the field of commercial law for at least fifteen (15) years, to the other Party who shall select the mediator from the list. The Parties shall split the cost of the mediator equally. The Parties agree that the period of mediation shall toll any otherwise applicable statute of limitations. However, nothing in this clause shall preclude any Party from commencing arbitration if said negotiations do not result in a signed written settlement agreement within sixty (60) days after written notice that amicable resolution negotiations have commenced.

17.3 Arbitration. Any dispute, controversy, or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, including claims for tortious interference or other tortious or statutory claims arising before, during or after termination, providing only that such claim touches upon matters covered by this Agreement shall be finally settled by arbitration administered by the American Arbitration Association pursuant to the Commercial Arbitration Rules in force at the time of the commencement of the arbitration, except as modified by the specific provisions of this Agreement. It is the specific intent of the Parties that this arbitration provision is intended to be the broadest form allowed by law.

17.4 Parties to Arbitration. This agreement to arbitrate is intended to be binding upon the signatories hereto, their principals, successors, assigns, subsidiaries and affiliates. This agreement to arbitrate is also intended to include any disputes, controversy or claims against any Party's employees, agents, representatives, or outside legal counsel arising out of or relating to matters covered by this Agreement or any agreement in which this Agreement is incorporated.

17.5 Consolidation Permitted. The Parties expressly agree that any court with jurisdiction may order the consolidation of any arbitrable controversy under this Agreement with any related arbitrable controversy not arising under this Agreement, as the court may deem necessary in the interests of justice or efficiency or on such other grounds as the court may deem appropriate.

17.6 Entry of Judgment. The Parties agree that a final judgment on the arbitration award may be entered by any court having jurisdiction thereof.

17.7 Appointing Arbitrators. The American Arbitration Association shall appoint the arbitrator(s) from its Large, Complex Claims Panel. If such appointment cannot be made from the Large, Complex Claims Panel, then from its Commercial Panel. The Parties hereby agree to and acquiesce in any appointment of an arbitrator or arbitrators that may be made by such appointing authority.

17.8 Qualifications of the Arbitrator(s). The arbitrator(s) must be a lawyer, having practiced actively in the field of commercial law for at least fifteen (15) years.

17.9 Governing Substantive Law. The arbitrator(s) shall determine the rights and obligations of the Parties according to the substantive laws of the State of Texas (excluding conflicts of law principles) as though acting as a court of the State of Texas.

17.10 Governing Arbitration Law. The law applicable to the validity of the arbitration clause, the conduct of the arbitration, including any resort to a court for provisional remedies, the enforcement of any award and any other question of arbitration law or procedure shall be the Federal Arbitration Act.

17.11 Governing Convention. The Parties elect to have the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958 (instead of the Inter-American New York Convention on International Commercial Arbitration of August 15, 1990) govern any and all disputes that may be the subject of arbitration pursuant to this Agreement.

17.12 Preliminary Issues of Law. The arbitrator(s) shall hear and determine any preliminary issue of law asserted by a Party to be dispositive of any claim, in whole or part, in the manner of a court hearing a motion to dismiss for failure to state a claim or for summary judgment, pursuant to such terms and procedures as the arbitrator(s) deems appropriate.

17.13 Confidentiality. The Parties and the arbitrator(s) shall treat all aspects of the arbitration proceedings, including without limitation discovery, testimony and other evidence, briefs and the award, as strictly confidential. Further, except as may be required by law, neither Party nor the arbitrator(s) may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both Parties.

17.14 Place of Arbitration. The seat of arbitration shall be Houston, Texas, USA.

17.15 Language. The arbitration shall be conducted in the English language. All submissions shall be made in English or with an English translation. Witnesses may provide testimony in a language other than English, provided that a simultaneous English translation is provided. Each Party shall bear its own translation costs.

17.16 Punitive Damages Prohibited. The Parties hereby waive any claim to any damages in the nature of punitive, exemplary, or statutory damages in excess of compensatory damages, or any form of damages in excess of compensatory damages, and the arbitrator(s) is/are specially divested of any power to award any damages in the nature of punitive, exemplary, or statutory damages in excess of compensatory damages, or any form of damages in excess of compensatory damages.

17.17 Costs. The Party prevailing on substantially all of its claims shall be entitled to recover its costs, including attorneys' fees, for the arbitration proceedings, as well as for any ancillary proceeding, including a proceeding to compel or enjoin arbitration, to request interim measures or to confirm or set aside an award.

17.18 Survival. The provisions of this Article 17 shall survive expiration or termination of this Agreement.

MISCELLANEOUS

18.1 Assistance. Without further consideration, BAYLOR hereby agrees to execute and deliver, and BAYLOR agrees to cause its officers, trustees, employees, and agents to execute and deliver, such other instruments, and to take such other action as OPEXA hereunder may reasonably request to more effectively convey and transfer to and vest in OPEXA, and to put OPEXA in possession of, the rights granted hereunder, and to assist OPEXA in the recordation of same as necessary, all in such form and substance as OPEXA may reasonably request and at OPEXA's expense.

18.2 Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the legal representatives, administrators, successors, permitted assigns and licensees of the Parties hereto.

18.3 Unenforceable Provision. The Parties hereby agree that neither Party intends to violate any public policy, statutory or common law, rule, regulation, treaty or decision of any government agency or executive body thereof of any country or community or association of countries, and that if any word, sentence, paragraph or clause or combination thereof of this Agreement is found, by a court or executive body with judicial powers having jurisdiction over this Agreement or any of the Parties hereto, in a final, unappealable order to be in violation of any such provision in any country or community or association of countries, such words, sentences, paragraphs or clauses or combination shall be inoperative in such country or community or association of countries, and the remainder of this Agreement shall remain binding upon the Parties hereto.

18.4 Entire Agreement. The terms and conditions herein contained, including all the schedules hereto, and all the agreements referenced herein, the assignments with the individuals listed on Schedule 1, and each of the Developer's Agreements with the individuals listed on Schedule 1, executed contemporaneously herewith or contemplated by any of such agreements constitute the entire agreement between the Parties and supersede all previous communications whether oral or written between the Parties hereto with respect to the subject matters hereof, and no previous agreement or understanding varying or extending the same shall be binding upon either Party hereto.

18.5 No Waiver. The Parties covenant and agree that if either Party fails or neglects for any reason to take advantage of any of the terms provided for the termination of this Agreement or if either Party, having the right to declare this Agreement terminated, shall fail to do so, any such failure or neglect by either Party shall not be a waiver or be deemed or be construed to be a waiver of any cause for the termination of this Agreement subsequently arising, or as a waiver of any of the terms, covenants or conditions of this Agreement or of the performance thereof. None of the terms, covenants and conditions of this Agreement may be waived by either Party except by its written consent.

18.6 Survival Upon Termination. The provisions, rights and obligations set forth in Articles 1, 2 (as contemplated by Paragraph 11.4(g)), 3 (but only with respect to sales occurring prior to the date of termination or to the extent applicable as per the terms of Paragraph 11.4 (g)), 4, 5, 9, 11, 13, 14, 15, 17 and 18, along with any other obligations that by their terms survive expiration or termination, shall survive the expiration or termination of this Agreement.

18.7 Changes to Agreement. No amendment or modification to this Agreement shall be effective unless it is in writing and signed by duly authorized representatives of both Parties.

18.8 Informed Review. The Parties acknowledge that each Party has received and reviewed this Agreement and that normal rules of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of this Agreement or any amendments or exhibits thereto.

18.9 Headings and References. The headings on articles and sections used in this document are for convenience and reference only, and shall not affect the meaning or interpretation of this Agreement unless the context requires otherwise. All references in this Agreement to any exhibit, schedule, or appendix shall be deemed and construed as references to a section of an exhibit, schedule or appendix of this Agreement and any exhibits, schedules, or appendices are hereby incorporated in this Agreement by such reference.

18.10 Third Party Beneficiaries. This Agreement is intended only to benefit the Parties. The Parties have no intention to create any interests for any other party. Specifically, no interests are intended to be created for any customer, patient, research subject or other persons (or their relatives, heirs, dependents, or personal representatives) by or upon whom the Technology, Licensed Patent Pending Products and Licensed Patented Products may have been used.

18.11 Recordation. Each Party shall have the right during the Term to record or register this Agreement in any patent office or other appropriate facility, and the other Party shall provide reasonable assistance in effecting such recording.

18.12 Counterpart Execution. This Agreement shall become binding as of the Agreement Date when any one or more counterparts hereof, individually or taken together, shall bear the signatures of each of the Parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be an original against any Party whose signature appears thereon, but all of which shall constitute one and the same instrument.

18.13 Responsibility for Expenses. Each Party is responsible for its own expenses related to the preparation and execution of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed and delivered this Agreement in multiple originals by their duly authorized officers and representatives on the respective dates shown below, but effective as of the Agreement Date.

OPEXA

BAYLOR COLLEGE OF MEDICINE

*Name: /s/ Michael T. Redman

Michael T. Redman*

*Name: /s/ W. Dalton Tomlin

W. Dalton Tomlin*

Title: President, Opexa Pharmaceuticals

*Title: Senior Vice President &
General Counsel*

Date: September 6, 2001

Date: September 6, 2001

Schedule 1
DEVELOPERS

1. Jingwu Zang Zhang, M.D., Ph.D.
2. Ying Q. Zang, M.D., Ph.D.

Schedule 2

PATENTS PENDING AND ISSUED

OTA NUMBER	PATENT	SERIAL NUMBER	TYPE	STATUS
00-71	"T-Cell V(beta)-D(beta)-J(beta) Sequence and Methods for its Detection."	09/507,819	U.S. Non-provisional	Pending; received Notice of Allowance.
00-71	"T-Cell V(beta)-D(beta)-J(beta) Sequence and Methods for its Detection."	US00/40006	PCT	Pending
00-71	"T-Cell V(beta)-D(beta)-J(beta) Sequence and Methods for its Detection."	US00/22988	PCT; claims to 20-mer peptide	Pending
00-71	"T-Cell V(beta)-D(beta)-J(beta) Sequence and Methods for its Detection."	09/641,576	U.S. Continuation-In-Part with claims to 20-mer peptide.	Pending

Schedule 3

TECHNOLOGY LICENSED TO OPEXA

1. OTA 00-70 "T-Cell Peptides as Therapeutics for Immune-Related Disease." Inventor: Jingwu Zhang, M.D., Department of Neurology.
2. OTA 00-71 "T-Cell Receptor V(beta)-D(beta)-J(beta) Sequence and Methods for its Detection." Inventor: Jingwu Zang Zhang, M.D., Department of Neurology.
3. OTA 01-02 "A Hormone Compound in the Treatment of Autoimmune Disease." Inventors: Ying Zhang, Ph.D. and Jingwu Zhang, M.D., Department of Neurology.
4. OTA 01-21 "The Use of a Unique Sequence of Human Herpesvirus-6." Inventor: Jingwu Zhang, M.D., Department of Neurology.
5. OTA 01-68 "T-Cell Vaccination in Multiple Sclerosis." Inventor: Jingwu Zhang, M.D., Department of Neurology.

Schedule 4

DISTRIBUTION OF SHARES OF COMMON STOCK

Name	Number of Shares
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1. Jingwu Zang Zhang, M.D., Ph.D.	637,500
2. Ying Q. Zang, M.D., Ph.D.	212,500
3. Baylor College of Medicine Department of Neurology	425,000
4. Baylor College of Medicine General Fund	425,000
Total	1,700,000

AMENDED AND RESTATED LICENSE AGREEMENT

This Amended and Restated License Agreement ("Agreement"), effective this 30th day of December, 2004 is between the University of Chicago, an Illinois not-for-profit corporation ("UNIVERSITY"), having its principal office at 5555 S. Woodlawn Avenue, Chicago, IL 60637 USA and PharmaFrontiers Corp., a Texas corporation ("PF") having its principal office at 2408 Timberloch Place, Suite B-7, The Woodlands, Texas 77380. Each hereunder may be referred to separately as the ("Party"), or together as the ("Parties"). The Parties agree:

1. Recitals.

A. To the best of the UNIVERSITY's knowledge at the date of execution of this Agreement, the inventions identified in Schedule A were conceived or first reduced to practice by the UNIVERSITY as Operator of Argonne National Laboratory (ANL) in the performance of work under its U.S. Department of Energy (DOE) Prime Contract No. W-31-109-ENG-38. Pursuant to the terms of the DOE Contract and 35 USC 200 et seq., UNIVERSITY has acquired certain rights in and to said inventions.

B. PF, a small business entity specializing in the development of therapeutic products, is interested in acquiring certain rights to said inventions.

C. UNIVERSITY is willing to grant such rights so that said inventions may be developed and used to the fullest extent for the benefit of the U.S. economy and the general public.

D. The Parties agree that this Agreement is the entire understanding between the Parties and supersedes all previous understandings and agreements, including the license agreement executed on February 20, 2004 (the "Original License Agreement") between the Parties. The License Agreement previously entered into by UNIVERSITY and PF on February 20, 2004 is hereby terminated upon the date of execution of this Agreement.

2. Definitions. The following capitalized terms used in this Agreement shall mean:

A. "Affiliate" means, as to any person or entity, any other person or entity, which directly or indirectly controls, is controlled by or is under common control with the Party. Control shall mean the right to control, or actual control of, management of such other entity, whether by ownership of voting securities, by agreement, or otherwise, or the direct or indirect ownership of the maximum percentage of such stock permitted under local laws or regulations in those countries where 50% ownership by a foreign entity is not permitted.

B. "Calendar Quarter "means each of the four, three-month periods ending on March 31st, June 30th, September 30th, and December 31st.

C. "Effective Date" means the date appearing in line 1 of this Agreement.

D. "Field" means all fields of use within diagnosis of, production of therapeutics for, or treatment of diseases and/or disorders in humans and the use in animals only for the development of such products or applications in humans. The Field includes making stem cells and banking of stem cells for such purpose and diagnostics, drug testing, therapeutics and screening of small molecules, proteins, and/or peptides which may cause differentiation of stem cells in vitro and/or in vivo and the stem cells themselves.

E. "First Financing" means any financing received by PF where total cumulative proceeds received by PF equal or exceed ten million (\$10,000,000.00) US dollars as recorded by PF's SEC filing records, excluding the 15% Exchangeable Convertible Subordinated Promissory Notes (the first tranche of which were issued September 30, 2004) up to ten million (\$10,000,000.00) US dollars.

F. "Licensed Patents," means the patents and patent applications listed on Schedule A and attached hereto, including all continuations, divisionals, and corresponding foreign patent applications and any patents which may issue therefrom and any reissues, renewals, reexaminations, substitutions, or extensions of or to any such patents or patent applications.

G. "Licensed Product(s)" means any product covered by the scope of any Valid Claim contained in any Licensed Patent or a product made by a process, method or technique covered by the scope of any Valid Claim in any Licensed Patent or methods of using any product covered by the scope of any Valid Claim contained in any Licensed Patent.

H. "Licensed Method(s)" means any method, procedure or process whose use or practice is within the scope of any Valid Claim of any Licensed Patents including but not limited to any service or part of selling a service, licensing a method of use or other means of deriving commercial benefit from Licensed Products.

I. "Net Sales" means the gross sales of Licensed Products and Licensed Methods sold or otherwise distributed in the Territory, less the following amounts directly chargeable to such sales as indicated on individual invoices:

- 1) customary trade, quantity or cash discounts and rebates actually allowed and taken;
- 2) amounts repaid or credited to customers on account of rejections or returns; and
- 3) freight and other transportation costs, including insurance charges, and duties, tariffs, sales and excise taxes and other governmental charges based directly on Sales, turnover or delivery of such Licensed Products and actually paid or allowed by PF and its Affiliates.

Net Sales shall be determined in accordance with generally accepted accounting principles consistently applied.

J. "Outstanding Number of Shares" means all shares of PF's stock outstanding on the relevant date, assuming the exercise of all options granted under any stock option plan of PF, the conversion of all other convertible securities then outstanding into Common Stock and the exercise, and conversion into Common Stock, of all other options and warrants of the Company that are then outstanding.

K. "Research and Development Expenses" means all expenditures, in US Dollars, by PF, its Sublicensees and any of their Affiliates on the following items dedicated to the research and development of Licensed Product(s) and/or Licensed Method(s): 1) materials, 2) the depreciation of equipment and facilities, 3) wages and benefits of employees, and 4) payments to third parties for conducting research and development of Licensed Product(s) and/or Licensed Method(s) on behalf of PF.

L. "Royalties" means all amounts payable under Article 4 of this Agreement.

M. "Sale" means any transaction in which a Licensed Product(s) and/or Licensed Method(s) is placed with a third party or used for the benefit of PF or a third party; provided "Sale" shall not include any placement or use of a Licensed Product(s) and/or Licensed Method(s) with or by a third party which is for testing or experimental purposes, including any animal or clinical trials so long as such placements are reported to the UNIVERSITY and for which no Compensation is received.

N. "Sublicensee" shall mean any person, company or other entity granted a Sublicense by PF, including Affiliates of the Sublicensee.

O. "Sublicense" shall mean any agreement entered into by PF with any person, company or other entity pursuant to which any of the rights granted to PF to the Licensed Patents are exercised.

P. "Territory" means worldwide.

Q. "Valid Claim" means an issued claim of any unexpired patent or a claim of any pending patent application which has not been held unenforceable, unpatentable or invalid by a decision of a court or governmental body of competent jurisdiction, in a ruling that is unappealable or unappealed within the time allowed for appeal; which has not been rendered unenforceable through disclaimer or otherwise; and which has not been lost through an interference proceeding or irrecoverable failure to pay a maintenance fee.

3. Grant.

A. Exclusive Patent Grant. Subject to paragraphs 3.D and 3.E., UNIVERSITY hereby grants to PF and its Affiliates, an exclusive, non-transferable license, to make, have made, use, have used, import, offer to sell, sell and/or have sold Licensed Products and/or Licensed Method (s) within the Field and within the Territory during the term of this Agreement.

B. Sublicense. PF shall have the exclusive right to grant Sublicenses to and under the Licensed Patents to third parties limited to and consistent with the rights granted PF under Paragraph 3.A within the Field and within the Territory.

C. Sublicense to Former Affiliates. For any Affiliates who have been granted rights by UNIVERSITY under Paragraph 3.A and who subsequently do not qualify as an Affiliate under the definition in 2.A, the UNIVERSITY shall, upon PF's request, offer to such former Affiliates a license under substantially the same terms and conditions as is contained in this Agreement and shall agree to negotiate in good faith to execute such an agreement. If no agreement is reached within six months of the UNIVERSITY's offer to said former Affiliate, the UNIVERSITY shall not be obligated to continue negotiation with such former Affiliate and will have no further obligation to execute any license with such former Affiliate.

D. No Other Rights. No rights in and to the Licensed Patents other than those provided in Paragraphs 3.A. and 3.B., above, express or implied, are conveyed by UNIVERSITY.

E. Reservation of Rights. UNIVERSITY reserves for itself, the worldwide right to use the Licensed Patents and to practice the inventions claimed in the Licensed Patents for any educational and/or non-commercial research purpose it may choose at its own discretion and without any payment therefore. UNIVERSITY shall have the right to grant non-exclusive licenses to third parties to practice the inventions claimed in the Licensed Patents for non-commercial research purposes only. If tangible property is provided by UNIVERSITY to PF, UNIVERSITY reserves the right to make, use and provide tangible property and to grant non-exclusive licenses to make and use such tangible property to third parties for non-commercial research purposes only. In addition, the inventions claimed in the Licensed Patents were made with the use of funds from the United States government. Therefore, the U.S. Government has a paid-up, royalty-free, non-transferable, worldwide, irrevocable license for government use to practice or have practiced by or on behalf of the U.S. Government the Licensed Patents. The U.S. Government has certain other rights under 35 USC 200 et seq. and applicable regulations.

4. License Fees, Royalties and Other Payments.

A. License Fee. As partial consideration for the license granted in Article 3 of this Agreement, PF shall pay UNIVERSITY the sum of one hundred and seventy-five thousand U.S. dollars (\$175,000) due and payable immediately upon execution of this Agreement. The sums due and payable under this Paragraph are nonrefundable and noncreditable against Royalties.

B. Equity. As partial consideration for the license granted in Article 3 of this Agreement, PF shall issue to the UNIVERSITY two hundred forty-two thousand six hundred and eighty-eight shares (242,688) (the "Shares") of capital stock representing one hundred eighty-seven thousand six hundred eighty-eight shares of capital stock already owned by the UNIVERSITY and an addition fifty-five thousand shares of capital stock. Such Shares shall be issued to University immediately upon execution of this Agreement. The consideration due and payable under this Paragraph is nonrefundable and non-creditable against Royalties. If certificate(s) representing such Shares are not received by UNIVERSITY within seven (7) days of the Effective Date, this Agreement shall be deemed in default and this Agreement shall automatically terminate effective immediately.

C. Milestones.

i. PF shall pay to University one and one half million (\$1,500,000.00) US dollars upon the occurrence of the First Financing or October 30, 2005 which ever occurs first. As of the date of execution of this Agreement, the First Financing is projected to take the form of a PIPE executed on or about March 31, 2005 with expected total revenue of thirty to forty million \$30-40,000,000.00) US dollars and shall be executed by Sanders Morris Harris. Should any other First Financing become the preferred method of financing PF shall notify UNIVERSITY of its intent and the proposed timing of such alternative First Financing. If the required payment is not received within seven (7) days of the closing date of First Financing or on or before October 30, 2005 which ever occurs first, UNIVERSITY shall have the right, at its sole discretion, to terminate this Agreement effective immediately upon notice to PF or to accept equity through the issuance of Common Stock with piggyback registration rights valued at the Conversion Price, and all accrued interest, at 15% per annum, from the date of execution of this Agreement until October 30, 2005 computed on the basis of a three hundred and sixty (360) day year of twelve (12) thirty (30) day months, and paid within ten (10) days of notice to PF that UNIVERSITY elects to exercise its right to accept equity under this paragraph.

ii. Upon the occurrence of the later of First Financing or November 30, 2005, PF shall issue to UNIVERSITY shares of Common Stock such that the aggregate number of shares issued to UNIVERSITY, including the Shares issued pursuant to Paragraph 4.B, shall represent two and six-tenths of a percent (2.6%) of the total Outstanding Number of Shares after conversion of the 15% Exchangeable Convertible Subordinated Promissory Notes, the first tranche of which was issued September 30, 2004, and after issuance of any and all equity in the form of stock at the close of the First Financing (the "Additional Shares").

iii. Registration Rights. PF agrees to grant and grants to UNIVERSITY the registration rights, with respect to the Shares and Additional Shares, set forth in Schedule B, and agrees to execute contemporaneously with the execution of this Agreement the Registration Rights Agreement included as Schedule B.

D. Capitalization. PF represents and warrants to UNIVERSITY that the capitalization table set forth in Schedule C attached hereto represents all of the issued and outstanding shares of stock, options, warrants and other securities of PF as of the date hereof, and no other warrants, options, stock rights or other securities of PF have been issued or are authorized to be issued by its Board of Directors. PF further represents and warrants that all Shares issued to UNIVERSITY pursuant to this Agreement shall be duly authorized, validly issued, deemed fully paid and non-assessable and not issued in violation of, and are not subject to, any preemptive rights. Non-payment or misrepresentation of information provided to UNIVERSITY by PF under this Agreement, is considered a material breach and UNIVERSITY may terminate the License pursuant to Paragraph 11.B. PF hereby agrees to promptly notify UNIVERSITY upon the close of each financing.

E. Royalties. As partial consideration for the license granted in Article 3 of this Agreement, PF shall pay UNIVERSITY a Royalty of of Net Sales of Licensed Product(s) and/or Licensed Method(s) by PF, its Sublicensees and Affiliates of either. The Royalty obligation under this paragraph shall apply to the first Sale of a Licensed Product(s) and/or Licensed Method(s) whether by PF or a Sublicensee. Royalty payments shall be due quarterly and payable within thirty (30) days of the end of each Calendar Quarter beginning in the period in which the first Sale occurs.

F. Royalty Offset. In the event that, with respect to Net Sales of Licensed Products and/or Licensed Methods, PF is paying royalties to unaffiliated third parties for patent rights and the unaffiliated third party patent rights dominate the Licensed Patents such that the Licensed Patents cannot be practiced without infringing such third party rights in the absence of a license, the Royalties due and payable to UNIVERSITY hereunder shall be proportionally reduced by of the royalty rate due such third party, but in no event shall the Royalty payable to UNIVERSITY be less than of Net Sales. By example, if the royalty due other third parties equals of Net Sales, the Royalty due UNIVERSITY shall be ; if the royalties due other third parties equals or more, of Net Sales, the Royalty due UNIVERSITY shall be . A Sublicensee shall not be entitled to any Royalty Offset under this Paragraph 4.F for any third party license it requires. However, PF will be entitled to the Royalty Offset if it is required to take a third party license as described above and subsequently sublicenses the Licensed Patents and the third party patents to a Sublicensee.

G. No Multiple Royalties. One royalty shall be payable for Licensed Product(s) and/or Licensed Method(s) regardless of the number of Licensed Patents which cover such licensed Product(s) and/or Licensed Method(s).

H. Minimum Royalties. Beginning in the calendar year that includes the third anniversary of the Effective Date of this Agreement Minimum Royalties shall be due and payable according to the following schedule;

- 1) If the total Royalties for the calendar year that includes the third anniversary of the Effective Date of this Agreement are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.
- 2) If the total Royalties for the calendar year that includes the fourth anniversary of the Effective Date of this Agreement are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.
- 3) If the total Royalties for the calendar year that includes the fifth anniversary of the Effective Date of this Agreement are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.
- 4) If the total Royalties for the calendar year that includes the sixth anniversary of the Effective Date of this Agreement are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.
- 5) If the total Royalties for the calendar year that includes the seventh anniversary of the Effective Date of this Agreement are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.
- 6) If the total Royalties for the calendar year that includes the eighth anniversary of the Effective Date of this Agreement, and for every year thereafter are less than , PF shall pay UNIVERSITY the difference between such amount and the actual Royalties due. Such payment shall be made at the same time payment for Royalties for the fourth quarter for such year is due.

I. Calculation of Royalties. Royalties shall be payable in U.S. currency within thirty days (30) days after the end of each Calendar Quarter for the Term of the Agreement, beginning with the Calendar Quarter in which the first Sale of a Licensed Product(s) and/or Licensed Method(s) occurs. A royalty statement showing Net Sales for each country and a calculation of the Royalties due shall accompany each payment. Any necessary conversion of currency into United States dollars shall be at the applicable rate of exchange of Citibank, N.A., in New York, New York, on the last day of the Calendar Quarter in which such transaction occurred.

J. Sublicense flow through.

i. For each Sublicense granted by PF the following shall apply. PF shall notify UNIVERSITY prior to the execution of any Sublicense. PF will disclose the identity of the potential Sublicensee to UNIVERSITY and shall provide UNIVERSITY with a copy of all executed Sublicenses. All Sublicenses shall provide that the Sublicensee may not grant further Sublicenses to third parties. If the aggregate of Average Annual Payments arising from any sublicense is not at least , then within sixty (60) days of the fifth anniversary of the execution of the Sublicense PF shall either terminate such Sublicense or pay UNIVERSITY times the difference between the Average Annual Payments and . "Average Annual Payments" shall mean the aggregate of all Royalties and flow through payments made in respect of a Sublicense over each of the five year periods ending on each of the fifth, tenth, fifteenth and twentieth anniversary of the date hereof divided by five.

ii. For each Sublicense granted by PF, PF shall pay UNIVERSITY of all Compensation. For this Section 4.J., "Compensation" means all fees, minimum royalties, milestone payments and other cash payments of any kind and in kind payments or equity amounts paid in lieu of cash, paid by a Sublicensee in consideration of the Sublicense. "Compensation" does not include (i) payments that constitute Net Sales that are subject to Royalties pursuant to Paragraph 4.E.; or (ii) payments or contributions of materials or services from a Sublicensee which PF is obligated to use in research and development and which qualify as Research and Development Expenses.

iii. If royalties paid by any Sublicensee to PF are not subject to the obligations under Paragraph 4.E because PF Sold Licensed Product(s) and/or Licensed Method(s) to such Sublicensee and therefore paid a Royalty to the UNIVERSITY under Paragraph 4.E, any such royalties paid to PF for Sublicensee's sales of Licensed Product(s) and/or Licensed Method(s) shall be subject to the sublicense flow through obligations of this paragraph.

iv. In the event that, with respect to the Sublicense of Licensed Patents, PF is required to additionally sublicense other intellectual property which has been licensed from a third party and to which third party sublicense flow through is owed, and that third party licensed intellectual property dominates the Licensed Patent such that Licensed Patents cannot be practiced without infringing the third party licensed intellectual property in the absence of a license, the amount due and payable to UNIVERSITY hereunder shall be proportionally reduced by of the sublicense flow through obligation due such third party, but in no event shall the sublicense flow through payable to UNIVERSITY be less than of all compensation received by PF from Sublicensee. Payments shall be made (or assigned as relevant) to UNIVERSITY within thirty (30) days of receipt by PF. For this purpose compensation includes all fees, minimum royalties, milestone payments and other cash payments of any kind and any in kind payments or equity amounts taken in lieu of cash. It is the intent and agreement of the parties that UNIVERSITY will be paid of any kind of Compensation paid by a Sublicensee for rights granted to such Sublicensee under this Agreement without regard to how the Compensation is structured, denominated or paid.

K. Sublicense after R&D expenditure of US dollars. At such time when PF expends US dollars in Research and Development Expenses other than with Licensor, the sublicense flow through subject to 4.J.ii above, for all Sublicenses will be reduced from of Compensation from the date on which such expenditure is confirmed by UNIVERSITY. In the event that, with respect to the Sublicense of Licensed Patents after expenditure of US dollars as described above, PF is required to additionally sublicense other intellectual property which has been licensed from a third party and to which sublicense flow through is owed, and that third party licensed intellectual property dominates the Licensed Patents such that the Licensed Patents cannot be practiced without infringing the third party licensed intellectual property in the absence of a license, the amount due and payable to UNIVERSITY hereunder shall be proportionally reduced by of the sublicense flow through obligation due such third party, but in no event shall the sublicense flow through payable to UNIVERSITY be less than of all compensation received by PF from Sublicensee. All other Sublicense conditions remain as described in Paragraph J., above.

L. Overdue Payment. PF shall be responsible for obtaining the full compliance of its Affiliates with the terms and conditions of this Agreement. For purposes of payments, PF shall be fully responsible for any payments not made by its Affiliates according to the terms and

conditions of this Agreement. Payments due to UNIVERSITY under this Agreement shall, if not paid when due under the terms of this Agreement, bear simple interest at the prime rate of interest (as published by Citibank, N.A. on the date such payment is due) plus percent (%), calculated on the basis of a 360 day year for the number of days actually elapsed, beginning on the due date and ending on the day prior to the day on which payment is made in full. Interest accruing under this Paragraph shall be due to UNIVERSITY on demand or upon payment of past due amounts, whichever is sooner. The accrual or receipt by UNIVERSITY of interest under this Paragraph shall not constitute a waiver by UNIVERSITY of any right it may otherwise have to declare a default under this Agreement or to terminate this Agreement.

M. Records. UNIVERSITY may from time to time and at any reasonable time, not exceeding once every twelve (12) months, through such firm of certified public accountant (auditor) as UNIVERSITY may select, inspect the books and records of PF and its Affiliates in order to verify the accuracy of reported statement by PF of sums paid or payable. PF shall, and shall cause its Affiliates, to keep full and accurate books and records in sufficient detail so that sums due UNIVERSITY hereunder can be properly calculated. Such books and records shall be maintained for at least five (5) years after the Royalty reporting period(s) to which they relate. Books and records shall include but not be limited to:

- i. Accounting General Ledgers
- ii. Invoice/Sales Registers
- iii. Original Invoice and Shipping Documents
- iv. Federal and State Business Tax Returns
- v. Company Financial Statements
- vi. Sales Analysis Reports
- vii. Inventory and or Manufacturing Records
- viii. Sub-License and Distributor Agreements
- ix. Price Lists, Product Catalogs and Other Marketing Materials

After completion of any such examination, UNIVERSITY shall promptly notify PF in writing of any proposed modification to PF statement of sums due and payable. If PF accepts such modification, or if the Parties agree on other modifications, one Party shall promptly pay or credit the other in accordance with such resolution. Such examination shall be made at the expense of UNIVERSITY, unless such examination discloses a discrepancy of five percent (5%) or more in the amount of Royalties and other payments due UNIVERSITY. In such case PF shall be

responsible for reimbursing UNIVERSITY for the examination fee and expenses charged by the auditor. Any underpayment as determined by the auditor will bear interest at five percent (5%) per month from the date the royalty payment was due. PF agrees to pay past due royalties for any royalty deficiency error as determined by the auditor, which affects periods within the period under audit. In addition, PF agrees to pay past due royalties for any royalty deficiency error as determined by the auditor, which affects periods prior to the period under audit. UNIVERSITY and the auditor shall maintain in confidence such inspection and its resulting report. The auditor may from time to time consult the UNIVERSITY and any of its' employees or third party counsel on questions as they relate to the licensed technology. The auditor may not disclose financial or proprietary information except as required by the license agreement or if it already exists in the public domain. No other confidentiality agreement shall be required to conduct the audit of the PF's books and records.

5. Diligence.

A. FDA Approval. PF agrees to use its best efforts to file and receive Food and Drug Administration (FDA) approval for either a Licensed Product(s) and/or Licensed Method(s) on or before February 20, 2011.

B. Development Plan. Upon execution of this Agreement and on each anniversary of the Effective Date of the Agreement until first commercial Sale, PF shall provide the UNIVERSITY with a commercial development plan for Licensed Product(s). Such summary shall include statements regarding research and development plans and expenditures, product milestones and related timetable schedules, government or regulatory timetables, market entry timetables, and sales and marketing plans and related financial data. Until PF and its Sublicensees and Affiliates of either have spent an aggregate of US dollars on Research and Development Expenses as required in Paragraphs 5.E and 5.F below, PF shall provide an annual report of the itemized expenditures toward research and development of Licensed Product(s) and/or Licensed Method(s). Such report shall be itemized in conjunction with the definition of Research and Development Expenses and will include an explanation regarding the percent commitment of employees, materials, equipment, facilities and contracts toward the development of Licensed Product(s) and/or Licensed Method(s).

C. Sale Deadline. If PF fails to make a Sale of Licensed Product(s) or Licensed Method(s) by February 20, 2011, UNIVERSITY shall have the right to unilaterally terminate this Agreement. Such termination shall be effective thirty days (30) after notice to PF.

D. Notification of First Sale. PF agrees to immediately notify UNIVERSITY in writing when Sales of Licensed Product(s) and/or Licensed Method(s) first occur and when PF's obligation to begin making Royalty payments begins.

E. Research Expenditures. PF shall demonstrate direct expenditure of at least US dollars on Research and Development Expenses before February 2006. Such expenditure may be made solely by PF or by PF and its Sublicensees, but in no event shall the total expenditure by Sublicensees account for greater than fifty (50%) percent of the US dollars required to satisfy the diligence obligations of this Paragraph. If PF fails to comply with the diligence obligation in this Paragraph, the Agreement shall be amended to restrict the grant as follows: 1) an exclusive license in two cell therapy areas chosen from the list of maladies in the Licensed Patents, ie: parkinson's disease, cardiac revascularization, liver disease, etc. (such areas to be determined by PF) and 2) a non-exclusive in the remainder of the Field. Such two exclusive areas will be identified in an amendment to this Agreement to be executed within thirty (30) days of notification to PF from UNIVERSITY that the diligence obligation under this Paragraph was not met. Failure to execute an amendment within the thirty (30) days gives the UNIVERSITY the right to unilaterally terminate this Agreement effective thirty (30) days after notice of termination is given to PF.

F. Research Expenditures. PF shall demonstrate direct expenditure of an aggregate of at least US dollars (including amounts spent pursuant to Paragraph 5.E) on Research and Development Expenses before February 20, 2008. Such expenditure may be made solely by PF or by PF and its Sublicensees, but in no event shall the total expenditure by Sublicensees account for greater than fifty (50%) percent of the US dollars required to satisfy the diligence obligations of this Paragraph. If PF fails to comply with the diligence obligation in this Paragraph but has met the diligence obligation in Paragraph 5.E., the Agreement shall be amended as follows: 1) an exclusive license in two cell therapy areas chosen from the list of maladies in the Licensed Patents, ie: parkinson's disease, cardiac revascularization, liver disease, etc. (such areas to be determined by PF) and 2) a non-exclusive in the remainder of the Field. Such two exclusive areas will be identified in an amendment to this Agreement to be executed within thirty (30) days of notification to PF from UNIVERSITY that the diligence under this Paragraph was not met. Failure to execute an amendment within the thirty (30) days gives the UNIVERSITY the right to unilaterally terminate this Agreement effective thirty (30) days after notice of termination is given to PF. If PF fails to comply with the diligence obligation in this Paragraph and has failed to meet the diligence obligation in Paragraph 5.E., the Agreement shall be amended as follows; the exclusive license shall be amended to a non-exclusive license in the Field. Such an amendment to this Agreement to be executed within thirty (30) days of notification to PF from UNIVERSITY that the diligence under Paragraphs 5.E. and 5.F. were not met. Failure to execute an amendment within the thirty (30) days gives the UNIVERSITY the right to unilaterally terminate this Agreement effective thirty (30) days after notice of termination is given to PF.

6. Patent Prosecution and Maintenance.

A. Prosecution and Maintenance. UNIVERSITY shall be solely responsible for the preparation, filing, prosecution and maintenance of the Licensed Patents. UNIVERSITY shall cause its patent counsel to provide PF with a list of the countries in which it has filed and/or intends to file applications. UNIVERSITY agrees to file applications in the additional countries requested by PF unless it otherwise notifies PF under Paragraph 6.D. PF and UNIVERSITY agree to make any amendments necessitated by such decisions to Schedule A in a timely manner. PF agrees to cooperate, and agrees to cause its Sublicensees and Affiliates of either to cooperate, with UNIVERSITY in the preparation, filing, prosecution and maintenance of the Licensed Patents by disclosing such information as may be necessary for the same and by promptly executing such documents as UNIVERSITY may reasonably request in connection therewith. PF and its Sublicensees and Affiliates of either shall bear their own costs in connection with their cooperation with UNIVERSITY under this Paragraph. UNIVERSITY will provide PF copies of all material documents received or prepared by UNIVERSITY in the prosecution and maintenance of the Licensed Patents. UNIVERSITY shall provide copies in a timely manner to allow PF an opportunity to comment and request changes. UNIVERSITY shall reasonably include comments of PF in the prosecution of Licensed Patents.

B. Patent Costs. PF agrees to pay all necessary and reasonable third party fees and expenses incurred by UNIVERSITY in obtaining and maintaining the Licensed Patents, including those incurred by UNIVERSITY prior to the Effective date of this Agreement. PF shall pay, concurrent with the execution of this Agreement, all historical patent costs incurred by UNIVERSITY prior to the Effective date of this Agreement. Payment for fees and expenses incurred after the Effective Date shall be invoiced to PF on a monthly basis and PF agrees to pay such invoices within thirty (30) days of receipt. PF also agrees upon request by UNIVERSITY to make timely estimated advanced payments for the filing of national applications. Documentation received from third party vendors to support the amounts invoiced shall be included with each invoice. PF shall raise any objections to such amounts invoiced within the thirty (30) day time period for payment. Invoices for advanced payments shall be reconciled with the advance payments made by PF every six (6) months. Any excess payment by PF shall be credited to future patent costs specified herein. PF will be responsible for the reimbursement until such time as UNIVERSITY licenses Licensed Patents to additional third parties for each respective patent should the rights granted in Article 3. be redefined subject to PF lack of diligence under Article 5. At such time when additional licenses are executed, the percent responsibility will be adjusted to reflect an equally shared reimbursement responsibility among all licensees including previous payments. PF will be reimbursed by UNIVERSITY for past payment above the equally shared reimbursement responsibility upon UNIVERSITY's receipt of historical patent cost payment by any additional licensee. Ongoing patent costs will be separately billed to each licensee representing an equal patent cost reimbursement responsibility.

C. Election not to pay patent costs. If PF decides to no longer support patent costs for a specific Licensed Patent listed in Schedule A, or a particular jurisdiction for a specific Licensed Patent listed in Schedule A, or a particular issued or pending patent application claiming priority to a Licensed Patent listed in Schedule A, PF shall notify UNIVERSITY in writing. Upon receipt of such notice, the patent rights at issue will thereafter be excluded from the license granted hereunder, and UNIVERSITY shall be free to license such rights to third parties, without any further obligation to PF. PF shall continue to reimburse UNIVERSITY for all costs incurred up to the date ninety (90) days after the date of receipt of such notice.

D. Failure to Pay Patent costs. If PF declines or fails to make advance payments or pay or reimburse UNIVERSITY for all or any portion of the patent fees and expenses (including maintenance fees) as required by Paragraph 6.B. for any Licensed Patent, PF's rights with respect to all such applications and patents for which PF fails to make advance payments or does not reimburse UNIVERSITY shall terminate effective thirty (30) days after written notice from UNIVERSITY requesting such payment, unless payment in full is made within such time. Notwithstanding the foregoing, failure to pay patent costs hereunder is a material breach of this Agreement and the UNIVERSITY has the right to terminate the Agreement as defined in Article 11.

7. Warranties; Indemnification, Assumption of Risk; Insurance.

A. The UNIVERSITY represents the following:

1) the execution, delivery, and performance of this Agreement by UNIVERSITY has been duly authorized by all necessary corporate action;

2) it has the full power and authority to enter into and carry out its obligations under this Agreement;

3) UNIVERSITY is acquiring the Shares and Additional Shares for its own account, for investment and not with a view to, or for resale in connection with, any distribution, or public offering thereof within the meaning of the Securities Act of 1933, as amended (the "Act") and applicable state securities laws;

4) UNIVERSITY understands that (A) the Shares and Additional Shares

(i) have not been registered under the Act or any state securities laws, (ii) will be issued in reliance upon an exemption from the registration and prospectus delivery requirements of the Act pursuant to Section 4(2) and/or Regulation D thereof, (iii) will be issued in reliance upon exemptions from the registration and prospectus delivery requirements of state securities laws which relate to private offerings and (iv) must be held by the undersigned indefinitely, and (B) UNIVERSITY must therefore bear the economic risk of such investment indefinitely unless a subsequent disposition thereof

is registered under the Act and applicable state securities laws or is exempt therefrom. UNIVERSITY further understands that such exemptions depend upon, among other things, the bona fide nature of the investment intent of the undersigned expressed herein. Pursuant to the foregoing, UNIVERSITY acknowledges that the certificate representing the Shares and Additional Shares acquired by UNIVERSITY shall bear a restrictive legend substantially as follows:

"The Securities represented by this certificate are subject to restrictions on transfer under the Securities Act of 1933 (the "Act"), as amended, and state securities laws, and may not be offered for sale, sold, assigned, transferred, pledged or otherwise disposed of unless (i) registered under the applicable securities laws or (ii) an exemption from registration is available."

5) UNIVERSITY is an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act, as presently in effect; and

6) UNIVERSITY is relying solely on investigations made by UNIVERSITY and its representatives in the acquisition of the Shares and the Additional Shares. UNIVERSITY has had an opportunity to discuss PF's business, management, financial affairs and prospects with its management and the opportunity to review PF's facilities, financial statements, public filings and business plan. UNIVERSITY has also had an opportunity to ask questions of management, which questions were answered to UNIVERSITY's satisfaction.

B. Disclaimer of Warranties. Other than the representations under Section

7.A, UNIVERSITY, Argonne National Laboratory, The DOE, and the U.S. Government, and/or persons acting on behalf of said, make no representations or warranties of any kind, express or implied, with respect to the invention(s) claimed in the Licensed Patents or with respect to the Licensed Patents themselves, including but not limited to, any representations or warranties about (i) the validity, scope or enforceability of any of the Licensed Patents; (ii) the invention(s) claimed in the Licensed Patents or with respect to the Licensed Patents themselves; (iii) whether the practice of any claim contained in any of the Licensed Patents will or might infringe a patent or other intellectual property right owned or licensed by a third party;

(iv) the patentability of any invention claimed in the Licensed Patents; or (v) the accuracy, safety, or usefulness for any purpose of any process made or carried out in accordance with or through the use of the Licensed Patents.

C. Indemnification. PF agrees to, and will cause any Sublicensee and Affiliates of either to, indemnify, defend and hold harmless UNIVERSITY, the U.S. Government, and Affiliates of either and all trustees, directors, officers, employees, fellows and agents of any of the foregoing (each an "Indemnified Person") from and against any and

all claims, demands, loss, damage, penalty, cost or expense (including attorneys' and witnesses' fees and costs) of any kind or nature, arising from the development, production, use, sale, license or other disposition of Licensed Product(s) and/or Licensed Method(s) by PF, its Sublicensees and Affiliates of either, or use of Licensed Patents and all activities associated therewith, including clinical trials, or any use of information provided by UNIVERSITY to PF. PF agrees, and will cause any Sublicensee and Affiliates of either to agree not to sue any Indemnified Person in connection with the use and/or examination of the Licensed Patents and all activities associated therewith. UNIVERSITY shall be entitled to participate at their option and expense through counsel of their own selection, and may join in any legal actions related to any such claims, demands, losses, damages, costs, expenses and penalties. PF shall not and will cause its Sublicensees and Affiliates of either, not to enter into any settlement affecting any rights or obligations of any Indemnified Person or which includes an express or implied admission of liability, negligence or wrongdoing by any Indemnified Person, without the prior written consent of such Indemnified Person.

D. Assumption of Risk. PF assumes the entire risk as to the performance safety and efficacy of Licensed Products or any invention claimed in the Licensed Patents. Indemnified Persons shall not be responsible or liable for any injury, loss, or damage of any kind, including but not limited to direct, indirect, special, incidental or consequential damages or lost profits to PF or any of the foregoing, or for any such injury, loss or damage to any other individual or entity, regardless of legal theory based on the use of Licensed Patents and all activities associated therewith. The above limitations on liability apply even though the Indemnified Person may have been advised of the possibility of such injury, loss or damage. PF shall not and will cause its Sublicensee's and Affiliates of either not to make any agreements, statements, representations or warranties or accept any liabilities or responsibilities whatsoever with regard to any person or entity, which are inconsistent with this Paragraph.

E. Insurance.

i. Insurance for Research Application Use. PF shall, and shall cause its Sublicensees and Affiliates of either to, for so long as such entity manufactures, uses or sells any Licensed Product(s) and/or Licensed Method(s) for research applications, maintain in full force and effect policies of (a) worker's compensation insurance within statutory limits, (b) employers' liability insurance with limits of not less than one million dollars (\$1,000,000) per occurrence and (c) general liability insurance with limits of not less than one million dollars (\$1,000,000) per occurrence with an annual aggregate of two million dollars (\$2,000,000). and (d) prior to the sale of any products, products liability insurance, with limits of not less than one million dollars (\$1,000,000) per occurrence with an annual aggregate of three million dollars (\$3,000,000).

ii. Insurance for Clinical Applications. If any of PF, its Sublicensee or any Affiliates of either manufactures, uses or sells any Licensed Product (s) and/or Licensed Method(s) for clinical applications, PF shall immediately notify UNIVERSITY in writing, and such entity shall maintain in full force and effect policies of (a) worker's compensation insurance within statutory limits, (b) employers' liability insurance with limits of not less than one million dollars (\$1,000,000) per occurrence, (c) general liability insurance (with Broad Form General Liability endorsement) with limits of not less than five million dollars (\$5,000,000) per occurrence with an annual aggregate of ten million dollars (\$10,000,000) and (d) products liability insurance, with limits of not less than five million dollars (\$5,000,000) per occurrence with an annual aggregate of twenty million dollars (\$20,000,000). PF's insurance for clinical applications shall be reviewed by UNIVERSITY upon the fifth and tenth anniversary of the Effective Date of this Agreement. At such times the UNIVERSITY may require PF to purchase a tail or extended reporting coverage plan and may also require an increase in coverage amounts proportional to inflation and the inflation of medical liability standards.

iii. Insurance Policy Requirements. Such coverage(s) shall be purchased from a carrier or carriers having an A. M. Best rating of at least A- (A minus) and shall name UNIVERSITY as an additional insured. PF shall provide to UNIVERSITY copies of certificates of insurance within thirty (30) days after execution of this Agreement. Such insurance shall be primary and noncontributory to any insurance UNIVERSITY and its Affiliates may have. At UNIVERSITY's request, PF will supply UNIVERSITY from time to time with copies of each such policy, and will notify UNIVERSITY in writing at least thirty (30) days prior to any termination of or change in coverage under any such policies.

8. Confidential Information and Publication.

A. All information submitted by one Party to the other concerning the Licensed Product(s) and/or Licensed Method(s), the invention(s) claimed in the Licensed Patents shall be considered as confidential ("Confidential Information") and shall be utilized by the receiving Party only pursuant to the licenses granted hereunder. During the term of this Agreement and for a period of five (5) years thereafter, neither Party shall disclose to any third party any Confidential Information received from the other Party without the specific written consent of such Party. The foregoing shall not apply where Confidential Information a) was or becomes public through no fault of the receiving Party, b) was, at the time of receipt, already in the possession of the receiving Party as evidenced by its written records, c) was obtained from a third party legally entitled to use and disclose the same, or d) is required by law to be disclosed to a governmental agency.

B. UNIVERSITY agrees to preserve as confidential any and all trade secrets, privileged records or other proprietary information belonging to PF, marked as Confidential and disclosed to UNIVERSITY. For disclosure of proprietary information belonging to PF by oral communication, such disclosure will be reduced to writing, marked as Confidential, and sent to UNIVERSITY within two weeks of disclosure to UNIVERSITY.

C. PF acknowledges the UNIVERSITY's strong institutional policy favoring the retention of publication rights and dependence upon publication as an essential means of intellectual exchange. UNIVERSITY shall have the right to publish the results of and disseminate information to the extent that proprietary trade secrets or confidential information provided by PF to UNIVERSITY are not disclosed.

9. Marketing and Advertising.

A. The Parties agree not to use the name of the other aforementioned, in any commercial activity, press releases, marketing, advertising or sales brochures except with the prior written consent of the other Party, which consent may be granted or withheld in such Party's sole discretion. PF further agrees not to use and shall prohibit its Sublicensees and Affiliates of either from using the name of the University of Chicago, Argonne National Labs, The DOE, and/or the U.S. Government in any commercial activity with out the prior written consent of the UNIVERSITY. PF may, upon receiving approval from UNIVERSITY, apply such approval to subsequent iterations of the same activity provided that the content and presentation of the approved material is not changed in terms of scope, scale or purpose. For additional clarification by example, it is intended that for approved material used in presenting to potential investors of PF the approved material may be presented to several investors at different times with out need for approval of each presentation.

10. Infringement.

A. Notice of Infringement. In the event of an infringement of a Licensed Patent, each Party shall give the other written notice if one of them becomes aware of any infringement by a third party of any Licensed Patent. Upon notice of any such infringement, the parties shall promptly consult with one another with a view toward reaching agreement on a course of action to be pursued.

B. PF's Right to Bring Infringement Action. If a third party infringes any patent included in the Licensed Patents within the Field, PF shall have the right to institute and prosecute an action or proceeding to abate such infringement and to resolve such matter by settlement or otherwise with the permission of UNIVERSITY. PF agrees to notify UNIVERSITY of its intention to bring an action or proceeding prior to filing the same and in sufficient time to allow UNIVERSITY the opportunity to discuss with PF the choice of counsel for such matter. PF agrees to hire counsel reasonably acceptable to UNIVERSITY. PF shall keep UNIVERSITY timely informed of material developments in the prosecution or settlement of such action or proceeding. PF shall be responsible for all costs and expenses of any action or proceeding against infringers which PF initiates. UNIVERSITY may be represented

by counsel in any such legal proceedings acting in an advisory but not controlling capacity, the expense of which shall be subject to reimbursement by PF. UNIVERSITY shall cooperate fully by joining as a party plaintiff if required to do so by law to maintain such action or proceeding and by executing and making available such documents as PF may reasonably request. PF agrees to promptly reimburse UNIVERSITY for its reasonable third party out-of-pocket fees and expenses incurred in joining an action or proceeding or cooperating with PF. All amounts of every kind and nature recovered from an action or proceeding of infringement by PF shall belong to PF. After deduction of the fees and expenses of both parties to this Agreement, any remaining amounts recovered shall be considered Net Sales under this Agreement and subject to Royalty payments in accordance with Article 4.

C. PF Discretion. The prosecution, settlement, or abandonment of any action or proceeding under Paragraph 10.B. shall be at PF's reasonable discretion provided that PF has timely informed UNIVERSITY of material developments of such action. PF shall not have any right to surrender any of UNIVERSITY's rights to the Licensed Patents or to grant any infringer any of UNIVERSITY's rights to the Licensed Patents without UNIVERSITY's written consent.

D. UNIVERSITY's Right to Bring Infringement Action. If a third party infringes any patent included in the Licensed Patents within the Exclusive Field which UNIVERSITY wishes to prosecute, UNIVERSITY shall first notify PF in writing and request that PF bring an action or proceeding against the infringing third party. If PF declines or fails to bring such an action or proceeding within thirty (30) days of receipt of the notice, UNIVERSITY shall have the right, at its sole discretion, to institute and prosecute an action or proceeding to abate such infringement and to resolve such matter by settlement or otherwise. PF shall cooperate fully by joining as a party plaintiff if required to do so by law to maintain such action and by executing and making available such documents as UNIVERSITY may reasonably request. If the amounts recovered by UNIVERSITY exceed its reasonable third party fees and expenses, UNIVERSITY agrees to pay PF for its reasonable third party expenses incurred by it in cooperating in the action or proceeding. Except as specifically provided in this Paragraph, UNIVERSITY shall have the right to retain all amounts recovered of every kind and nature. Amounts recovered by UNIVERSITY shall not be considered Net Sales under this Agreement and shall not give rise to Royalty payments. Nothing in this Paragraph shall be construed to affect PF's rights under this Agreement to sublicense the Licensed Patents provided, however, that once the UNIVERSITY has instituted legal proceedings against, or settlement discussions with, an alleged infringer under this Paragraph, PF shall not grant a sublicense to such alleged infringer without the prior written consent of UNIVERSITY.

11. Termination.

A. Unless terminated earlier pursuant to Paragraphs 11.B or 11.C, this Agreement shall terminate on the date of expiration of the last to expire of the Licensed Patents.

B. UNIVERSITY's Right to Terminate. UNIVERSITY shall have the right to terminate this Agreement as follows, in addition to all other available remedies:

- 1) If PF fails to pay any Royalties, patent costs or other payment when due, this Agreement shall terminate effective ninety (90) days after UNIVERSITY's written notice to PF to such effect, unless PF makes such payment within the ninety (90) days or has cured such failure to the satisfaction of the UNIVERSITY.
- 2) If PF fails to comply with any material obligation other than Diligence provisions in Paragraph 5E and 5F of this Agreement, the UNIVERSITY may at its sole discretion terminate the Agreement effective ninety (90) days after UNIVERSITY's written notice to PF describing such failure, unless PF cures such failure to the satisfaction of UNIVERSITY within the ninety (90) days.
- 3) If PF shall have filed by or against it a petition under any bankruptcy or insolvency law and such petition is not dismissed within ninety (90) days of its filing, or if PF makes an assignment of all or substantially all of its assets for the benefit of its creditors UNIVERSITY may terminate this Agreement by written notice effective as of the (i) date of filing by PF of any such petition, (ii) date of any such assignment to creditors, or (iii) end of the ninety (90) days if a petition is filed against it and not dismissed by such time, whichever is applicable.
- 4) If PF shall be dissolved, liquidated or otherwise ceases to exist, other than for reasons specified in this Article 11, this Agreement shall automatically terminate as of (i) the date articles of dissolution or a similar document is filed on behalf of PF with the appropriate government authority or (ii) the date of establishment of a liquidating trust or other arrangement for the winding up of the affairs of PF.
- 5) Any previous waiver by the UNIVERSITY, of the UNIVERSITY's right to terminate this Agreement, shall not constitute a waiver on any subsequent right of the UNIVERSITY to terminate under this Article 11.

C. PF's Right to Terminate. PF may terminate this Agreement at any time by giving UNIVERSITY ninety (90) days prior written notice.

D. Rights Upon Termination. Other than as provided in Paragraph 11.E. below, upon Termination of this Agreement, for any reason, PF shall have no further rights to the Licensed Patents. PF agrees to immediately cease distribution of any unused Licensed Product(s) and shall provide UNIVERSITY with a complete list of all such unused Licensed Product(s), ("Inventory) within ten (10) days of termination and all such Inventory shall be destroyed within six (6) months after termination. PF shall provide UNIVERSITY with written documentation of such destruction.

E. Survival. (i) All causes of action accruing to either party under this Agreement shall survive termination for any reason, as well as (1) PF obligation to pay Royalties, fees and other payments accrued prior to the date of termination and which were not paid or payable before termination, and (2) PF obligation to report Net Sales and to keep records as set forth in this Agreement. The milestone obligation of Article 4.C.ii and all provisions inclusive from Article 7 to Article 10 survive termination or expiration of the Agreement. (ii) During the six (6) month period following termination of this Agreement, PF may sell Inventory by requesting permission, from UNIVERSITY, on a case by case basis to sell such Inventory. Such request will be made in writing to the address listed in this Agreement. If the UNIVERSITY grants permission to sell any Inventory, such Sales shall be subject to the Royalty obligations under Paragraph 4.E.

12. Export Regulations.

A. To the extent that the United States Export Control Regulations are applicable, neither PF nor UNIVERSITY shall, without having first fully complied with such regulations, (i) knowingly transfer, directly or indirectly, any unpublished technical data obtained or to be obtained from the other party hereto to any destination, or (ii) knowingly ship, directly or indirectly, any product produced using such unpublished technical data to any destination. PF acknowledges that the export of any products and/or technical data from the United States may require some form of export control license from the U.S. Government. Failure to obtain any required export licenses by PF may result in PF subjecting itself to criminal liability under U.S. laws.

B. U.S. Competitiveness. PF agrees that any Licensed Product(s) and/or Licensed Method(s) for use or sale in the United States shall be manufactured substantially in the United States.

13. Entire Agreement, Amendment, Waiver.

A. The Agreement together with the Schedules attached hereto constitute the entire agreement between the Parties regarding the subject matter hereof, and supersedes all prior written or oral agreements or understandings (express or implied) between them concerning the same subject matter. The Agreement may not be amended or modified except in a writing signed by duly authorized representatives of each Party. No waiver of any default hereunder by either Party or any failure to enforce any rights hereunder shall be deemed to constitute a waiver of any subsequent default with respect to the same or any other provision hereof.

14. Notice.

Any notice required or otherwise made pursuant to this Agreement shall be in writing, sent by registered or certified mail properly addressed, or by facsimile with confirmed answer-back, to the other Party at the address set forth below or at such other address as may be designated by written notice to the other Party. Notice shall be deemed effective three (3) business days following the date of sending such notice if by mail, on the day following deposit with an overnight courier, if sent by overnight courier, or upon confirmed answer-back if by facsimile.

If to UNIVERSITY:

Office of Technology &
Intellectual Property
5555 S. Woodlawn, Suite 300
Chicago, IL 60637 USA
Attention: Director

If to PharmaFrontiers Corp.:

David B. McWilliams, President
2408 Timberloch Place, Suite B7
The Woodlands, Texas 77380

15. Assignment. This Agreement shall be binding on the Parties hereto and upon their respective successors and assigns. Notwithstanding Section 3.A., either Party may at any time, upon written notice to the other party, assign or delegate to a successor to all or substantially all of its business any of its rights and obligations hereunder, provided that any such assignment or delegation shall in no event relieve either Party of its primary responsibility for the same. Except as provided in the preceding sentence, and except as provided in Paragraph 11.B.3, PF may not assign this Agreement without the prior written consent of UNIVERSITY, which consent shall not be unreasonably withheld, and any attempted assignment in violation thereof shall be void. UNIVERSITY may assign this Agreement at any time to any third party on written notice to PF. In such event, the assignee shall be substituted for UNIVERSITY as a party hereto, and UNIVERSITY shall no longer be bound hereby.

16. Governing Law. To the extent there is no applicable federal law, the interpretation and performance of this Agreement shall be governed by the laws of the State of Illinois applicable to contracts made and to be fully performed in that state.

17. Force Majeure. Except for the obligation to pay, the parties shall not be liable for any failure to perform or observe any term of this Agreement if performance or observance has been delayed, hindered, restricted or prevented by any circumstance not within the direct control of the parties, including without limitation, Acts of God, strikes, lock-outs, war, hostilities or the threat thereof, or compliance with any valid order of any governmental or public authority, and the time or times for performances of the obligations on the respective parties parts to be performed herein shall be extended by a period equal to each such period of delay provided that such party shall immediately give notice to the other party in accordance with the provisions of this Agreement and shall endeavor to remove or remedy the cause thereof with all due diligence and expedition. "Force Majeure" shall not include financial hardship or a lack of funds to make payment.

18. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their respective duly authorized officers or representatives and

<i>signed below,</i>	
<i>University of Chicago</i>	<i>PharmaFrontiers Corp.</i>
<i>By: /s/ Alan Thomas</i>	<i>By: /s/ David B. McWilliams</i>
-----	-----
<i>Name: Alan Thomas</i>	<i>Name: David B. McWilliams</i>
<i>Title: Director of Technology Transfer</i>	<i>Title: Chief Executive Officer</i>
<i>Date: 12/30/04</i>	<i>Date: 12/30/04</i>
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Schedule A

UCTech Case # ANL-IN-02-021

US Patent application - 10/704,110, title "Human stem cell materials and methods"

PCT application - US03/35538

UCTech Case # ANL-IN-04-010

US Patent application - title "Human Stem Cell Materials and Methods."

Schedule B

Schedule C

PharmaFrontiers Corp. Capitalization Table

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, David B. McWilliams, certify that:

1. I have reviewed this annual report on Form 10-KSB of PharmaFrontiers Corp. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID B. MCWILLIAMS

David B. McWilliams
President and Chief Executive Officer

Date: April 14, 2005

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, C. William Rouse, certify that:

1. I have reviewed this annual report on Form 10-KSB of PharmaFrontiers Corp. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ C. WILLIAM ROUSE

C. William Rouse

Chief Financial Officer and Principal Accounting Officer

Date: April 14, 2005

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, the undersigned Officer of PharmaFrontiers Corp. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID B. MCWILLIAMS

David B. McWilliams
President and Chief Executive Officer

Date: April 14, 2005

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

Pursuant to 18 U.S.C. Section 1350, the undersigned Officer of PharmaFrontiers Corp. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. WILLIAM ROUSE

*C. William Rouse
Chief Financial Officer and Principal Accounting Officer*

Date: April 14, 2005

End of Filing

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