

# OPEXA THERAPEUTICS, INC.

## FORM 8-K

(Current report filing)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 8-K**

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

Date of Report (Date of Earliest Event Reported): June 4, 2004

**SPORTAN UNITED INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**TEXAS**

(State or other jurisdiction of incorporation)

000-25513

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(Commission File Number)

760333165

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(I.R.S. Employer Identification No.)

18205 Burkhardt Rd., Tomball Texas, 77377  
(Address of principal executive offices, including zip code)

(281) 290-6655  
(Registrant's telephone number, including area code)

## FORWARD LOOKING STATEMENTS

This 8-K contains forward-looking statements. These statements relate to future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause Sportan United Industries, Inc.'s ("Company" or "Sportan") or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company is under no duty to update any of the forward-looking statements after the date of this report to conform its prior statements to actual results.

Further, this report contains forward looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act that involve substantial risks and uncertainties. Such statements include, without limitation, all statements as to expectation or belief and statements as to our future results of operations, the progress of any research, product development and clinical programs, the need for, and timing of, additional capital and capital expenditures, partnering prospects, the protection of and 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, risks of delays in, or adverse results from, our 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.

### **ITEM 1. CHANGES IN CONTROL OF REGISTRANT.**

On June 4, 2004 we closed on a transaction acquiring all the common stock of PharmaFrontiers Corporation, a Texas corporation ("PharmaFrontiers"), pursuant to a stock agreement by and among the Company, PharmaFrontiers and the stockholders of PharmaFrontiers (the "Stock Transaction"). As a result of the Stock Transaction, PharmaFrontiers became a wholly-owned subsidiary of the Company, through which operations will be conducted. References herein to the Company include PharmaFrontiers.

As a result of the closing of the Stock Transaction, we issued an aggregate of 6,386,439 shares of our common stock to the former shareholders of PharmaFrontiers (in exchange for all of the outstanding capital stock of PharmaFrontiers), resulting in the former shareholders of PharmaFrontiers owning approximately 86% of the issued and outstanding Company common stock. Additionally, Jason Otteson resigned as the director and sole officer, and Warren Lau was appointed as director to fill the vacancy of Mr. Otteson and was also appointed to serve as chief executive officer, chief operating officer, president and treasurer. Wayne Fritzsche was appointed vice president of corporate development and William Rouse was appointed chief financial officer, vice president of operations and administration and secretary.

## OFFICERS AND DIRECTORS

Our executive officers and directors are as follows:

### NAME: AGE: POSITION:

Warren C. Lau	50	Director, Chief Operating Officer, Chief Executive Officer, President and Treasurer
Wayne Fritzsche	55	Vice President of Corporate Development
William Rouse	56	Chief Financial Officer, Vice President of Operations and Administration, and Secretary
Dewayne R. Deslatte	34	Director

Warren C. Lau has served as a director, chief operating officer, president and treasurer since June 2004. Mr. Lau served as chief executive officer of PharmaFrontiers from January 2003 to May 2004. Mr. Lau was the co-founder of Biokeys Pharmaceuticals, Inc., and served as its president, chief executive officer and director from June 1996 until October 2002. From November 1997 to September 1998, Mr. Lau served as a director of Immune Complex Corporation and Synthetic Genetics, Inc., both privately held biotechnology companies. Mr. Lau has negotiated patent and technology license agreements with The University of Texas M. D. Anderson Cancer Center (1996), New York University (1998), The University of Southern California (2000), and The National Institutes of Health (2002). Mr. Lau studied violin performance at the Southern Methodist University Meadows School of the Arts while concurrently completing all undergraduate Pre-Med prerequisites.

R. Wayne Fritzsche has served as our vice president of corporate development since June 2004. Presently, Mr. Fritzsche serves as director for three private companies in the healthcare industry and as chairman of the board of Boston Biomedica. From October 2000 until November 2002, Mr. Fritzsche served as executive vice president of BioQuest. From October 1994 until July 2000, Mr. Fritzsche served as executive vice president, vice president of corporate development and director of Nobex Corporation. Mr. Fritzsche has been a founder or part of the founding group of 12 healthcare companies, and has been a board member of 18 healthcare firms. Mr. Fritzsche has a B.A. in Literature, a B.S. in Chemistry and an MBA from the University of San Diego.

William Rouse has served as our chief financial officer and secretary since June 2004. For the past five years Mr. Rouse has served as a consultant serving positions such as executive vice president of sales and marketing, broker, bankruptcy consultant, interim president and interim chief operating officer. Prior to work as a consultant, Mr. Rouse was the chief marketing officer of Futorian, Stratford, Simmons & Stratolounger. Mr. Rouse has a B.S. in Industrial Engineering from Texas A&M University.

Dwayne Deslatte, RN has served as a member of the Company's Board of Directors since March 2004. Mr. Deslatte is a Registered Nurse who since April 2001 has worked in general surgery with Texas Children's Hospital, and from January 2000 until April 2001 has worked in orthopedics at St. Joseph's Hospital. Mr. Deslatte received his B.S. in Nursing, cum laude, from Texas Women's University and his B.A. in History from Texas A&M University. While at Texas A&M University, Mr. Deslatte served in the Corps of Cadets for four years.

## BOARD COMPOSITION

Our board of directors currently consists of two (2) members. Each of our directors is elected annually at our annual meeting. There are no family relationships between any of our officers and directors. The board of directors has not established any committees but plans to establish an audit committee, compensation committee, nominating and governance committee and a bioethics committee in the near future. The Company does not have an audit committee financial expert serving on its board of directors.

## DIRECTOR COMPENSATION

Mr. Deslatte received 30,000 shares of Company common stock for compensation for serving as director of the Company. In addition, Mr. Deslatte is compensated for ordinary and necessary expenses incurred in attending any board of directors meeting.

Mr. Lau entered into a director's agreement in April 2004 to help protect the Company's intellectual property, proprietary information and goodwill, received 20,000 shares of Company common stock upon execution of the agreement, and will receive \$5,000 annually for each year he serves as director. Further, Mr. Lau will be compensated for expenses in attending and participating in meetings of the board of directors. The director's agreement contains confidentiality, non-compete/no-hire, assignment of inventions and conflict of interest provisions consistent with his fiduciary duty obligations owed to the Company.

## EXECUTIVE COMPENSATION

The following table contains compensation data for our named executive officers who received total annual salary and bonus for the fiscal years ended September 30, 2003, 2002 and 2001 in excess of \$100,000. Mr. Otteson is the only executive who earned in excess of \$100,000 during the last three calendar years.

Mr. Otteson served as the Company's chief executive officer until his resignation in May 2004 when Mr. Lau was appointed the Company's chief executive officer. Mr. Lau has not received any compensation from the Company in the three prior fiscal years.

Summary Compensation Table

Name and Principal Position	Year	ANNUAL COMPENSATION		LONG TERM COMPENSATION
		Salary (\$)	Bonus (\$)	AWARDS  Securities Underlying Options / SARs (#)
Jason G. Otteson, Chief Executive Officer	2003	\$ 102,000		
	2002	\$ 102,000		24,000
	2001	\$ 102,000		

## OPTION GRANTS

There were no option grants to any named executive officer during the last fiscal year. There are options outstanding held by various employees to purchase 31,700 shares of common stock at prices ranging from \$37.50 to \$71.50 per share, the last of which expire in 2011.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Securities Underlying Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End (\$) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jason Otteson	--	--	--	--	--	--

## **LONG TERM INCENTIVE PLANS**

In March 1999, Sportan adopted its 1999 Stock Option Plan (the "Plan"). The terms of the Plan can be found in previous Act filings. No awards were made to a named executive in the last completed fiscal year under this Plan.

## **EMPLOYMENT AGREEMENTS**

Mr. Lau's employment agreement provides for an annual salary of \$98,000 and is effective through January 2007, and shall automatically be extended until January 2010 unless a written notice of discontinuation has been received by Lau or the Company. The agreement provides for an annual bonus to be determined from time to time by the board of directors. Mr. Lau's agreement contains non-compete, non-solicit, and non-disclosure provisions consistent with his fiduciary duty obligations owed to the Company. Additionally, Mr. Lau signed an assignment of inventions agreement where Mr. Lau acknowledges that any invention discovered by him during his employment with the Company shall be the property of the Company.

Mr. Fritzsche was issued 231,500 shares of Company common stock upon execution of his employment agreement. Mr. Fritzsche's agreement does not provide for an annual salary and is effective through April 2007. Mr. Fritzsche has the right to purchase in April 2006 200,000 shares of Company common stock at a price per share equal to 80% of the then current market value, and in April 2007 another right to purchase 200,000 shares of Company common stock at a price per share equal to 80% of the then current market value. Mr. Fritzsche's agreement contains confidentiality, non-compete, non-solicit, assignment of inventions and conflict of interest provisions consistent with his fiduciary duty obligations owed to the Company.

William C. Rouse's employment agreement provides for an annual salary of \$55,000 and expires in April 2005. Upon signing the employment agreement, Mr. Rouse purchased 150,000 shares of Company common stock for nominal consideration. Additionally, Mr. Rouse was issued an option to purchase 100,000 shares of Company common stock at a price per share that is 80% of the then current market value which vests upon the earlier of: (1) the acquisition of more than 50% of the common stock of Company by an acquirer at a total market value exceeding two hundred fifty million dollars, or (2) a financing of Company with one time proceeds of at least ten million dollars which values the then outstanding Company common stock at one hundred million dollars or more. Mr. Rouse's agreement contains confidentiality, non-compete, non-solicit, assignment of inventions and conflict of interest provisions consistent with his fiduciary duty obligations owed to the Company.

## **CERTAIN TRANSACTIONS**

In December 2003, Jason Otteson exchanged \$448,667 of outstanding indebtedness with the Company for a convertible note payable in the amount of \$12,500, which he later converted into 250,000 shares of Company common stock in February 2004. Mr. Otteson owns an additional 71,820 shares of Company common stock for which he paid nominal consideration.

The Company borrowed \$36,000 from Mr. Jarkesy bearing interest at 12% per annum, \$11,000 of which matures in October 2004 and \$25,000 of which matures in November 2004. Mr. Jarkesy acquired 500,000 shares of Company common stock in July 2003 in consideration for \$50,000. Mr. Jarkesy received 1,012,500 shares of Company common stock in the Stock Transaction in exchange for his shares of PharmaFrontiers common stock purchased for nominal consideration.

William Lau received 1,298,748 shares of Company common stock in the Stock Transaction in exchange for his PharmaFrontiers common stock purchased for nominal consideration.

Dwayne Deslatte received 30,000 shares of Company common stock in exchange for services as a director of the Company in May 2004.

Wayne Fritzsche received his 500,000 shares of Company common stock in the Stock Transaction in exchange for his PharmaFrontiers common stock purchased for nominal consideration.

William Rouse received his 150,000 shares of Company common stock in the Stock Transaction in exchange for his PharmaFrontiers common stock purchased for nominal consideration.

Brewer & Pritchard, P.C. received 70,000 shares of Company common stock in December 2003 in exchange for services rendered and received 230,000 shares of Company common stock in the Stock Transaction purchased for nominal consideration.

The University of Chicago ("University") received 187,688 shares of Company common stock in February 2004 as partial consideration for granting a License to the Company. Upon the successful rescue of diabetic mice by implantation of insulin producing cells generated from peripheral monocyte derived cells, the University will receive another 187,688 shares of Company common stock. Additionally, the University has anti-dilution rights which rights, as well as other terms of the License, are discussed in Item 5 of this Form 8-K.

In April 2004, Mr. Jeffrey H. Adduci and Mr. Robert H. Gow agreed to serve as directors of PharmaFrontiers, our subsidiary. In May 2004, Mr. Michael Redman agreed to serve as a director of PharmaFrontiers. To help protect PharmaFrontiers' intellectual property, proprietary information and goodwill, the directors of our subsidiary agreed to enter into separate agreements with PharmaFrontiers. The agreements are substantially similar and include confidentiality, non-compete/no-hire, assignment of inventions and conflict of interest provisions consistent with their fiduciary duty obligations owed to PharmaFrontiers. The agreement does not contain a termination or expiration clause. Compensation under each agreement is different for each director. Mr. Adduci received 20,000 shares of Company common stock for signing the agreement and will receive a \$5,000 annual payment. Mr. Gow received 80,000 shares of Company common stock for signing the agreement and will receive a \$1,000 monthly payment. Mr. Redman received 80,000 shares of Company common stock for signing the agreement. All directors are compensated for ordinary and necessary expenses incurred in attending any board of directors meeting.

## PRINCIPAL STOCKHOLDERS

We have 7,416,838 shares of common stock issued and outstanding as of the date hereof. The following table sets forth, as of such date, information with respect to shares beneficially owned by:

- each person who is known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership has been determined in accordance with Rule 13d-3 of the Exchange Act. Under this rule, shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option) within 60 days of the date of this table. In computing the percentage ownership of any person, the amount of shares includes the amount of shares beneficially owned by the person by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person does not necessarily reflect the person's actual voting power.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF OUTSTANDING SHARES
George Jarkesy	1,512,500	20.39%
Warren C. Lau	1,298,748	17.51%

Wayne Fritzsche	500,000	6.74%
Jason G. Otteson	321,820	4.34%
Dwayne Deslatte	30,000	0.4%
Directors and Executive Officers as a Group (4 persons)	1,978,478	26.68%

Mr. Lau, Fritzsche and Deslatte's, business address is the same as our principal executive office. Mr. Otteson's business address is 3170 Old Houston Road, Huntsville, TX 77340.

## DESCRIPTION OF SECURITIES

### General

We are authorized to issue 50,000,000 shares of common stock, \$.05 par value, and 10,000,000 shares of preferred stock, \$.001 par value.

#### Common stock

As of June 1, 2004 there were 7,416,838 shares of common stock issued and outstanding that were held of record by approximately 143 shareholders.

The holders of common stock are entitled to one vote per share with respect to all matters required by law to be submitted to stockholders. The holders of common stock have the sole right to vote, except as otherwise provided by law or by our certificate of incorporation, including provisions governing any preferred stock. The common stock does not have any cumulative voting, preemptive, subscription or conversion rights. Election of directors and other general stockholder action requires the affirmative vote of a majority of shares represented at a meeting in which a quorum is represented. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Subject to the rights of any outstanding shares of preferred stock, the holders of common stock are entitled to receive dividends, if declared by our board of directors out of funds legally available. In the event of liquidation, dissolution or winding up of the affairs of the Company, the holders of common stock are entitled to share ratably in all assets remaining available for distribution to them after payment or provision for all liabilities and any preferential liquidation rights of any preferred stock then outstanding.

#### Preferred stock

As of June 1, 2004 there were no shares of preferred stock issued and outstanding.

Our board of directors has the authority, without action by our stockholders, to designate and issue preferred stock in one or more series. Our board of directors may also designate the rights, preferences, and privileges of each series of preferred stock, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of the common stock until the board of directors determines the specific rights of the holders of the preferred stock. However, these effects might include:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; and
- delaying or preventing a change in control of the Company without further action by the stockholders.

#### Transfer agent

The transfer agent and registrar for our common stock is American Register & Transfer.

## Disclosure Of Commission Position On Indemnification For Securities Act Liabilities

Texas law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. Our articles of incorporation limit the liability of directors to Sportan or its stockholders to the fullest extent permitted by Texas law. Specifically, directors will not be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the company or its stockholders, (ii) for acts or omissions not in good faith that constitute a breach of duty of the director to the company or an act or omission which involves intentional misconduct or a knowing violation of law, (iii) for an act or omission for which the liability of a director is expressly provided by an applicable statute, or (iv) for any transaction from which the director received an improper personal benefit, whether the benefit resulted from an action taken within the scope of the director's office.

The inclusion of this provision in the articles of incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited the company and its stockholders.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 ("Act") may be permitted to directors, officers and controlling persons as provided in the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is unenforceable.

In the event that a claim for indemnification against such liabilities, other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding, is asserted by a director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

### **Shares Eligible for Future Sale**

Of the 7,416,838 shares of common stock outstanding, a total of 6,389,439 shares were issued in the Stock Transaction and are "restricted securities" subject to the resale limitations of Rule 144. Of the 6,386,439 shares issued in the Stock Transaction, a total of 3,941,248 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 shall 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. Of the 1,030,399 shares of Company common stock that were outstanding prior to the Stock Transaction, a total of 891,820 of these shares are subject to another lock-up agreement effective May 2004 that limits sales up to an aggregate of 74,319 shares of Company common stock per 90-day period. This lock-up agreement restriction shall 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.

George Jarkesy and Brewer & Pritchard, P.C. executed separate registration rights agreements in May 2004 which agreements provided for a demand registration right to cause the Company to use its best efforts to register the resale of Company common stock by means of a registration pursuant to the Securities Act of 1933, as amended, within 90 days of receiving notice of demand from Jarkesy and Brewer & Pritchard, P.C.

In general, restricted securities may be sold pursuant to Rule 144 after they have been fully paid for and beneficially owned for one year and the shares are sold in brokers' transactions or to market makers in an amount per quarter not to exceed the greater of 1% of the number of shares of common stock then outstanding or the average weekly trading volume for a four-week prior to such sale.

The Company is unable to estimate the number of shares to be sold in the future by its stockholders, since this will depend upon the market price for the common stock, the personal circumstance of the sellers and other factors. Previously, there has been a limited market for the common stock and the sale of a substantially number of

shares on the market may significantly reduce the market price.

## **RECENT SALES OF UNREGISTERED SECURITIES**

All of the following transactions were completed pursuant to Section 4(2) of the Act. With respect to issuances made pursuant to Section 4(2) of the Act, the transactions 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.

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.

In June 2004, the Company issued 6,386,439 shares of its common stock to 37 accredited investors in connection with the Stock Transaction in which the Company acquired all of the capital stock of PharmaFrontiers.

In May 2004, one individual was issued 30,000 shares of Company common stock and another individual was issued 3,000 shares of Company common stock.

In April 2004, a creditor agreed to discharge \$41,199 of outstanding indebtedness for 3,000 shares of Company common stock.

In the quarter ending December 31, 2003, several creditors agreed to discharge debt with the Company in exchange for 80,600 shares of common stock and \$8,696 in cash.

In December 2003, Brewer & Pritchard, P.C., an accredited investor, agreed to forgive debt with the Company in exchange for 70,000 shares of Company common stock.

In December 2003, a creditor agreed to discharge \$448,667 of outstanding debt with the Company for a convertible note payable in the amount of \$12,500, which he later converted into 250,000 shares of Company common stock in February 2004.

In July 2003, the Company sold 500,000 shares of common stock to an individual for \$50,000.

In June 2003, the Company converted 2,144,006 shares of convertible preferred stock (and accrued and unpaid interest) into 46,440 shares of common stock.

In September 2001, the Company issued options to purchase 3,800 shares of Company common stock at an exercise price of \$70.00 per share to 6 employees for services rendered.

In July 2001, the Company issued options to purchase 15,000 shares of Company common stock to the former chief executive officer at an exercise price of \$71.50 per share for services rendered.

## **ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.**

**Inapplicable.**

## **ITEM 3. BANKRUPTCY OR RECEIVERSHIP**

**Inapplicable.**

## **ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

**Inapplicable.**

## **ITEM 5. OTHER EVENTS.**

### **OUR BUSINESS**

#### **OVERVIEW**

We have recently entered the biotechnology industry, specifically the research and development of adult pluripotent stem cells derived from adult human peripheral blood. Initially, our business strategy will be focused on raising capital in order to (i) open and operate a blood cell bank, (ii) open and operate a research and development facility, and (iii) collaborate with various third parties including, but not limited to, sublicenses, licenses and patents related to research and development of cellular therapies using adult pluripotent stem cells.

We believe that further research and development of adult pluripotent stem cells from adult human peripheral blood could improve many conditions and diseases affecting humans. Ideally, we plan to produce or create, either through our own research and development or in collaboration with third parties, acceptable product(s) to be sold to end line users.

#### **ORGANIZATIONAL HISTORY**

The Company was incorporated in Texas in 1986 and initially competed in the sports trading card and memorabilia business. In 1999, management concluded that the trading card business was providing insufficient growth and subsequently sold the sports trading cards and supplies segment of its business. During the last five years, the Company ventured into the novelty and memorabilia merchandise field. At that time, the Company began to focus on internet fulfillment of products in the sports marketplace. In February 2002, we reduced our operations due to the decline in demand for outsourced internet fulfillment companies, and to stabilize our financial condition. We also began searching for opportunities for merger related growth prospects. In May 2004, we entered the biotechnology industry, specifically the research and development of adult pluripotent stem cells derived from adult human peripheral blood, by acquiring all of the capital stock of PharmaFrontiers.

#### **THE BACKGROUND AND ADVANTAGES OF STEM CELLS**

##### **GENERAL OVERVIEW**

Cells are the basic unit of the tissues that comprise the human body. Human tissues make up all of the systems in the body, such as neuronal tissue (brain) or cardiac tissue (heart). Each type of tissue has a functional use to the human body. For example, integumentary tissue (skin) provides protection for the body from the elements while hepatic tissue (liver) allows the body to filter blood.

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. These stem cells also have the property of being able to differentiate into the specialized cells that make up the individual tissues of the body, such as pancreatic (pancreas) tissue that produces insulin.

Every human begins life when a single cell, the zygote, is formed after fertilization. After fertilization, the zygote divides and forms two cells. This process continues several times, two cells dividing into two more and so on. About five days after conception, a tiny ball of cells has formed, this is known as the blastocyst. Inside the blastocyst are two types of cells, the trophoblast and the inner cell mass. The inner cells are known as embryonic stem cells. These cells have a "blank slate" and can be differentiated into any cell type in the human body. These stem cells are therefore called pluripotent stem cells. These embryonic stem cells are the 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.

In addition to the stem cells formed within the blastocyst, stem cells are also found within various tissues that make up the body. For example, bone marrow stem cells are found within the marrow of the bone and they give

rise to all of the specialized blood cell types. These cell types carry the name adult stem cells. Adult stem cells are usually programmed to form different cell types of their own tissue, and carry the name multipotent, or able to create several different types of cells but all within the same type of tissue. Scientists have identified adult stem cells in many of the body's organs. Adult stem cells that are found in the bone marrow include hematopoietic stem cells, endothelial stem cells, and mesenchymal stem cells. Hematopoietic stem cells form blood, endothelial stem cells form the vascular system (veins and arteries), and mesenchymal stem cells form muscle, fat, cartilage, bone, and fibroblasts.

A third source for obtaining stem cells has been through collecting those that reside in the umbilical cord blood of a newborn baby. The umbilical cord is the tissue that ties a baby to the mother within the womb. After the baby is born amounts of blood can be collected from the umbilical cord and cryofrozen. The drawback to these cells is that they are unable to be cultured indefinitely in the laboratory.

### **THE USE OF STEM CELLS**

Stem cells can be utilized in several different therapeutic modalities. Some modalities are proven therapies, while some merely hold out promise for the future.

One of the major potential benefits of stem cell research is to discover the process by which stem cells differentiate. It is known that genes control the ways in which differentiation is turned on and off by cells. Achieving an understanding of the controls within the cell that turn on and off the proliferation of one normal regular cell into a tumor of useless abnormal cells could hold great promise. So by understanding the intricate triggers that allow a stem cell to differentiate into different types of functioning cells, the opportunity exists to understand mechanisms that cause cancer or birth defects.

The use of stem cells to test drugs is another area that holds promise. By being able to reproduce large numbers of differentiated stem cells, a company can have an available proving ground for new drugs. The lab grown tissues would allow for measuring drug toxicity on differentiated cells.

Last is the potential of actually generating cells and tissues that could be transplanted into the body to regenerate tissues damaged by disease, infection, injury, and other factors.

### **ETHICAL IMPLICATIONS**

The phrase "stem cell" came to prominence in the summer of 2001 as a debate regarding the ethical/moral dilemmas inherent to the use of embryonic stem cells. At issue was the Federal funding for the creation of embryonic stem cell lines. World opinion was heavily focused upon the issue, with the Vatican, Right to Life organizations, prominent synagogues in the United States, and the scientific community taking positions. The Roman Catholic Church was steadfastly against any embryonic stem cell use or development, including the use of already developed stem cell lines. On August 9, 2001 President George W. Bush addressed the nation and approved Federal funding for the up to 60 existing lines of human embryo stem cell lines available. Within his address the President pointed out that other sources such as umbilical stem cells and adult stem cells offer promise. Our use of pluripotent stems cells from the adult donation of blood, therefore, sidesteps the entire issue raised by the use of embryonic stem cells.

### **HISTORICAL USE OF ADULT STEM CELLS**

For the last 40 years adult stem cells have been successfully used as a treatment for cancer, especially cancers such as leukemia, lymphoma, and several inherited disorders of the blood. This type of treatment is known as Bone Marrow Transplant (BMT). A patient who has leukemia has a disease of the blood cells wherein the blood cells do not function properly. When this occurs stem cells can be harvested from the patient's own body using a technique called leukapheresis, or harvested from the bone marrow of a matched donor. A special catheter is placed into the patient and medications are given that encourage the bone marrow to release bone marrow into the blood stream. The stem cells are then taken from the bloodstream. At this point the patient undergoes high doses of radiation and/or chemotherapy. This destroys the patient's abnormal blood cells and kills the cancerous cells. The stem cells are then reintroduced into the body to restart the bone marrow and allow the bone marrow to begin production of a healthy system of blood cells. This procedure can be very painful for the patient and difficult to collect. We believe isolating stem cells from peripheral blood would revolutionize treatment using adult pluripotent

stem cells.

## **IMPORTANCE OF ADULT PLURIPOTENT STEM CELLS**

We believe that adult pluripotent stem cells may be suitable for use in treating a wide variety of disorders and diseases, and possibly in ameliorating a symptom associated with one or more of those diseases or disorders. Further, this technology may eventually offer researchers a practical alternative to the use of embryonic stem cells for research, drug discovery, and transplantation.

Because of the cell's ability to be frozen, thawed, and then expanded, the cells may be harvested from any individuals wishing to store these cells for potential later use. Several companies currently offer a service like this to expectant parents who may choose to bank their newborn's umbilical cord blood which contains stem cell-like cells. We believe that this market may have opportunity for growth.

Specifically, we believe that upon further research and development, adult pluripotent stem cells may be useful in the treatment of numerous disease and conditions, including, but not limited to the following:

- Heart attack or heart transplant
- Stroke
- Parkinson's disease
- Diabetes
- Liver disease
- Viral hepatitis
- Cirrhosis
- Arthritis

We do not currently have the capabilities to research, develop, and commercialize the potential uses of adult pluripotent stem cells. However, we intend to either expand our capabilities or enter into partnership with third parties that will enable the Company to develop product(s) or process(es) to be sold to end line users

## **OUR CURRENT TECHNOLOGY**

We have the exclusive, worldwide rights to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory operated by the University of Chicago ("Argonne"), related to the discovery of adult pluripotent stem cells in adult human peripheral blood (the "License"). The License, dated February 2004, is between the University of Chicago ("University") and PharmaFrontiers. The material terms of the License include:

## **RIGHTS TO PATENT APPLICATIONS**

The License grants exclusive, worldwide rights to the following patent applications in the field of cell therapy for treatment of human diseases: (1) US patent application - 10/704,110, title "Human stem cell materials and methods," and (2) PCT application -US03/35538 (the "Patent Applications"). The Patent Applications are related to technology including, but not limited, to the following:

1. Methods and/or processes that enable scientists to obtain adult pluripotent stems from adult human peripheral blood ;
2. Adult pluripotent stem cells, themselves;
3. Methods and/or processes for separating, propogating and differentiating adult pluripotent stem cells into specific stem cell types;
4. Methods and/or processes for which adult pluripotent stem cells may be used to treat a wide variety of diseases;
5. The use of adult pluripotent stem cells for the purpose of drug development and drug toxicology studies; and
6. Methods and/or processes for cryofreezing and then "banking" adult pluripotent stem cells for future use by a patient.

## **EQUITY INTEREST PROVIDED TO THE UNIVERSITY PURSUANT TO THE LICENSE**

The Company has agreed to grant the University additional shares of common stock, if and when the Company has reached certain scientific objectives in the development of the technology included in the License. At this time, it is uncertain if and when the objectives will occur, but the Company does not believe such objectives will occur in the next year

### **CYTONET GMBH & CO. KG SUBLICENSE**

The Company has agreed to grant a sublicense to Cytonet GmbH & Co. KG (Cytonet) in at least two fields of use (the "Cytonet Sublicense"). We have agreed to use our best efforts to enter into the Cytonet Sublicense within six (6) months after contact with Cytonet. If a sublicense is not granted to Cytonet within six (6) months after the beginning of negotiations, the University has the right to amend the license to exclude the fields of (a) generation of hepatocytes and endothelial cells for the treatment of hepatic disorders, and (b) generation of cardiomyocytes and endothelial cells for the treatment of cardiac disorders. If the University elects to amend the License as stated, the University will have 120 days to enter into a sublicense with Cytonet, or the License will be amended to reflect those fields being re-included in the License. The Company began negotiations with Cytonet in March 2004 and believes that the Company will enter into the Cytonet Sublicense in accordance with the License.

### **REQUIRED RESEARCH AND DEVELOPMENT EXPENDITURES**

The Company must meet diligence requirements with respect to expenditures on research and development. The Company must expend 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, half of each amount may be expended by sublicensees. 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. If an amendment is not made within the thirty days, the University will have the right to terminate the agreement.

### **REQUIRED DISCLOSURE REGARDING FUTURE FINANCINGS**

The Company is required to notify the University upon the close of each financing completed by the Company and to provide the University with an updated capitalization table.

### **MARKETING AND ADVERTISING**

The Company has agreed not to use the University or Argonne's name in any commercial activity, press release, marking, advertising or sales brochures except with prior written consent, which consent may be granted or withheld in such party's sole discretion. Further, the Company has agreed to prohibit its sublicensees and affiliates from using the name of the University, Argonne, The Department of Energy and/or the U.S. Government in a commercial activity without the prior written consent of the University. The Company has received permission to use such names in this filing, as well as all future filings.

### **TERMINATION**

The License sets forth several material conditions and/or requirements that the Company must achieve. If the Company is unsuccessful in achieving such conditions and/or requirements, the License may be terminated. Specifically, we will be in default if we fail to do the following:

1. Failure to timely make royalties, patent costs, or other costs;
2. Failure to sell a product or method based on the licensed technology by February 2010;
3. Failure to issue equity interest when appropriate; and
4. Failure to expend appropriate funds on research and development.

### **BUSINESS STRATEGY**

Currently, the Company is in the process of establishing itself in the biotechnology field. We need to raise capital in order to further establish ourselves in the biotechnology field. The additional capital will be used to (i) create a blood cell bank; (ii) create an in-house research and development facility; and (iii) enter into various third party agreements.

**BLOOD CELL BANKING.** The Company plans on creating a blood cell bank that will cryofreeze and store an individual's blood until such time that the patient needs their stem cells. We believe that an opportunity exists in the marketing and collection of stem cells for private individuals for use in the future. Such private individuals may be able to benefit from stem cell therapies currently in development.

The Company's strategy is to open a blood cell bank within a year; however, there is no guarantee that such operation will be completed within the year. We will need to raise additional capital in order to finance the initial cost of setting up the blood cell bank, however at this time, we are unable to estimate such cost.

**IN-HOUSE RESEARCH AND DEVELOPMENT FACILITY.** We plan to open a laboratory and employ qualified scientist to research and develop cellular therapies. Our goal is to eventually produce a product that will be sold to consumers. Initially, we plan to focus our research and development on a few of the potential areas of licensed technology, but we have not yet determined which of these areas our focus will be on. Further we plan to sell adult pluripotent stem cells created at our laboratory to various third party research facilities and companies.

Although we plan to open the laboratory within the next year, we do not believe we will produce a product within the next few years nor can we quantify the costs required to open and operate a laboratory. In order to open the laboratory and employ scientists we will need to raise additional capital and there is no guarantee that even with such additional capital we will be able to open the laboratory.

**THIRD PARTY ARRANGEMENTS AND ACQUIRING OTHER LICENSEES AND PATENTS.** We plan to expand our presence in the biotechnology industry by sublicensing some of our rights to the licensed technology to research organizations and other third parties and acquiring other licenses and patents. We currently do not have any sublicenses but are in discussions with several third parties. Additionally, we are continuously looking for opportunities to acquire additional licenses or patents that will benefit and/or broaden our focus on adult pluripotent stem cells therapies.

We believe that by sublicensing some of the rights to the licensed technology to research organizations and other third parties, the Company will be able to more fully realize the potential that lies in the use of the licensed technology. Our goal is to eventually create various commercially available products that can be sold to end line users or other research facilities.

In order to seek out viable third party candidates, we will need additional capital. However, even with the additional capital, there is no guarantee that we will find third party candidates that meet our criteria or that we will be able to reach an agreement with such third parties.

## **COMPETITION**

The development of therapeutic 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 main competitors include Aastrom Biosciences, Geron, Gamida-Cell Ltd, Stem Cells Inc., Cellerant Therapeutics, and Osiris Therapeutics. Many of these competitors have significant products in development that could be competitive with our potential products.

Our competitive position will be determined in part by the products or therapies that are produced from our technology. Our competitive position also depends upon its ability to attract and retain qualified personnel, obtain patent protection or otherwise develop or license proprietary products or processes, secure sufficient capital resources to complete product development and regulatory processes, to build a marketing and sales organization, and to build or obtain large-scale manufacturing facilities.

## **PATENTS, PROPRIETARY RIGHTS AND LICENSES**

We believe that proprietary protection of inventions related to adult pluripotent stem cells will be critical to our future business. As of May 13, 2004, we have rights to the Patent Applications. We understand the importance of confidentiality and protection of its intellectual property. We rely upon trade-secret protection for its confidential and proprietary information and takes active measures to control access to that information. The Company currently has non-disclosure agreements with all its employees.

## **GOVERNMENT REGULATION**

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

In the United States, pharmaceuticals, biologicals and medical devices are subject to rigorous Food and Drug Administration, or FDA, regulation. The Federal Food, Drug and Cosmetic Act, as amended, and the Public Health Service Act, as amended, the regulations promulgated there under, 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**

The steps required before our potential products may be marketed in the United States include:

### **STEPS AND CONSIDERATIONS:**

#### **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 clinical Good Manufacturing Practices, or GMP, determined by the FDA. 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:

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.

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.

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.

#### 4. 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.

#### 5. 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 current good manufacturing practice (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.

### **ORPHAN DRUG ACT**

The Orphan Drug Act provides incentives to drug manufacturers to develop and manufacture drugs for the treatment of diseases or conditions that affect fewer than 200,000 individuals in the United States. Orphan drug status can also be sought for treatments for diseases or conditions that affect more than 200,000 individuals in the United States if the sponsor does not realistically anticipate its product becoming profitable from sales in the United States. We may apply for orphan drug status for certain of our therapies. Under the Orphan Drug Act, a manufacturer of a designated orphan product can seek tax benefits, and the holder of the first FDA approval of a designated orphan product will be granted a seven-year period of marketing exclusivity in the United States for that product for the orphan indication. While the marketing exclusivity of an orphan drug would prevent other sponsors from obtaining approval of the same compound for the same indication, it would not prevent other types of products from being approved for the same use including, in some cases, slight variations on the originally designated orphan product.

### **PROPOSED FDA REGULATIONS**

The FDA has published a "Proposed Approach to Regulation of Cellular and Tissue-Based Products" which relates to the use of human cells. 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 stem cell research (for stem cells that give rise to various tissue types, including blood), and the manufacture and marketing of 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, or EU, is revising its regulatory approach to high tech products, and representatives from the United States, Japan and the EU are in the process of harmonizing and making more uniform the regulations for the registration of pharmaceutical products in these three markets.

### **Reimbursement and Health Care Cost Control**

Reimbursement for the costs of treatments and products such as ours from government health administration authorities, private health insurers and others both in the United States and abroad is a key element in the success of new health care products. Significant uncertainty exists as to the reimbursement status of newly approved health care products.

The revenues and profitability of some health care-related companies have been affected by the continuing efforts of governmental and third party payers to contain or reduce the cost of health care through various means. Payers are increasingly attempting to limit both coverage and the level of reimbursement for new therapeutic products approved for marketing by the FDA, and are refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been a number of Federal and state proposals to implement government control over health care costs.

## **RESEARCH AND DEVELOPMENT**

The Company has not performed research and development during its last two fiscal years. However, we do anticipate incurring substantial research and development cost in 2004 and future years.

## **EMPLOYEES**

As of June 1, 2004, the Company has three full time employees: Warren Lau, William Rouse and Wayne Fritzsche. We believe that our relations with our employees are good. We currently have employment agreements for each of these employees.

## **INSURANCE**

The Company does not have any insurance coverage to cover losses or risks incurred in the ordinary course of business. We intend to obtain insurance customary in our industry.

## **FACILITIES**

The Company's current headquarters are located at 10211 Silver Leaf Lane, Tomball, Texas 77375. The Company does not currently pay rent on this space. The Company is currently in the process of locating and leasing a larger office facility in Houston, Texas.

## **RISK FACTORS**

Our business, financial condition and results of operations could be materially adversely affected if any of these risks materialized, which could result in the trading price of our common stock to decline.

### **WE HAVE A HISTORY OF OPERATING LOSSES AND DO NOT EXPECT TO BE PROFITABLE IN THE NEAR FUTURE.**

The Company has not generated any profits since its inception, has no source of revenues, and has incurred significant operating losses. Furthermore, due to the nature of the biotechnology industry, we do not expect to generate revenue until future years. As we begin to develop our business strategy, we expect our expenses to increase substantially in the next few years. These expenses will include the research and development (which includes the cost of opening a laboratory and the cost associated with hiring qualified personnel); the cost associated with the blood cell bank; the costs associated with negotiation and compliance with any future sublicenses and other third party arrangements; and the cost associated with acquiring other intellectual property.

### **FAILURE TO RAISE ADDITIONAL CAPITAL WILL PREVENT US FROM IMPLEMENTING OUR BUSINESS STRATEGY.**

The Company needs to obtain significant additional capital resources through equity and debt financings, grants and collaborative research arrangements. As of March 31, 2004, the Company currently has nominal assets in cash and cash equivalents. The Company's current burn rate is approximately \$40,000 per month. We plan to use our best efforts to obtain debt and equity financing in order to support our current operations and business strategies. There is no assurance that we will raise the funds necessary to meet our short-term (and long-term) working capital needs.

The Company believes that we will need a minimum of \$500,000 to fund our nominal operations for the balance of fiscal 2004. This money will not be used to setup the blood cell bank, research and development, or for negotiating or entering into any other third party agreements. Failure to obtain such funding could severely impact the operations of the Company. Notwithstanding the foregoing, our goal is to raise sufficient funds during 2004.

Further, the Company believes that we will need to raise substantial capital to fund our business strategy for the balance of fiscal 2004. At this time, we are unable to estimate the amount of additional capital that will be required to fund our business strategy. This money will be used to setup the blood cell bank, to locate, create, and/or acquire a laboratory, to hire qualified scientist and other personnel, and to locate potential third parties for sublicensing or other third party agreements, and/or for acquiring additional intellectual property. Failure to obtain such funding could adversely affect the business strategy of the Company.

### **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 individual of the potential benefit in cryofreezing an individual's blood for use in the future. The failure to operate the blood cell bank facility, may adversely affect our business strategy because we believe the operation of the blood cell bank will provide awareness and attention about us to the public.

### **OUR TECHNOLOGY IS IN THE EARLY STAGES OF DEVELOPMENT AND WE MAY BE UNABLE TO DEVELOP COMMERCIALY ACCEPTABLE PRODUCTS, EVEN IF WE HAVE SUFFICIENT CAPITAL.**

Our stem cell technology is in the early stages and has not yet led to the development of any product, nor do we see the development of any product within the next few years. The Company may not be able to develop any products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products. Any product using stem cell technology may fail to survive and persist in the desired location, provide the intended therapeutic benefits, properly integrate into existing tissue in the desired manner, or achieve therapeutic benefits equal to or better than the standard of treatment at the time of testing.

**WE MAY BE UNABLE TO OPEN OUR OWN RESEARCH FACILITIES AND/OR HIRE SUFFICIENT PERSONNEL, EVEN IF WE HAVE SUFFICIENT CAPITAL.**

We currently do not have the ability to internally develop any technology. The Company anticipates opening its own research facilities to develop adult pluripotent stem cellular therapies. However, we may be unable to locate, create, and/or acquire a laboratory, acceptable to us. Further, we currently do not have a scientific staff, and in order to utilize our technology, we will need to attract and retain qualified scientific personnel. We may not be able to attract and retain the personnel we need on acceptable terms given the competition for experienced personnel among pharmaceutical, biotechnology and healthcare companies, universities and research institutions.

**WE MAY BE UNABLE TO OBTAIN SUBLICENSES AND OTHER THIRD PARTY AGREEMENTS, EVEN IF WE HAVE SUFFICIENT CAPITAL.**

We have not entered into any third party agreements and or sublicenses. In order to successfully develop and commercialize our technology, we may need to enter into a wide variety of arrangements with corporate sponsors, pharmaceutical companies, universities, research groups and others. The Company is currently engaged in discussions regarding such arrangements. However, we have not reached any agreement and may fail to obtain such agreement acceptable to us.

**OUR MANAGEMENT IS CURRENTLY UNPROVEN.**

The Company has a limited history of operations under the management and control of the new officers and directors of the Company. We believe that the combined skill, education and experience of the new management team will be successful in its endeavors, there is no guarantee that the new management team will be successful.

**WE BELIEVE OUR COMPETITION INCLUDES FULLY INTEGRATED PHARMACEUTICAL COMPANIES THAT HAVE SIGNIFICANT ADVANTAGES OVER US.**

The market for therapeutic stem cell products is very competitive. We expect that our most significant competitors will be fully integrated pharmaceutical companies and more established biotechnology companies, such as Stem Cells, Inc., Aastrom Biosciences, Gamida-Cell Ltd., and Geron. 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 in the process to create products to be approved or developed, and also operate large, well-funded research and development programs.

**THE LICENSE IS OUR PRIMARY ASSET, AND A DEFAULT OF THE LICENSE WILL MATERIALLY AFFECT OUR BUSINESS STRATEGY.**

The License sets forth several material conditions and/or requirements that the Company must achieve. If the Company is unsuccessful in achieving such conditions and/or requirements, the License may be terminated. If there is such a default in the License, we will lose our primary asset. Specifically, we will be in default if we fail to do the following:

- Failure to timely make royalties, patent costs, or other costs;
- Failure to sell a product or method based on the licensed technology by February 2010;
- Failure to issue stock when appropriate; and
- Failure to expend appropriate funds on research and development.

**IF WE ARE UNABLE TO OBTAIN FUTURE PATENTS AND OTHER PROPRIETARY RIGHTS OUR OPERATIONS WILL BE SIGNIFICANTLY HARMED.**

**The Patent Applications.**

Our ability to compete effectively is dependent upon on obtaining patent protection relating to adult pluripotent stem cells. 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 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 Argonne was the first to make the inventions covered by the Patent Applications or that the 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.

### **Patent Protection.**

In the event that a third party has also filed a patent application relating to inventions in the Patent Applications, we may have to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of the inventions, which could result in substantial uncertainties and cost for us, even if the eventual outcome is favorable to us. There can be no assurance that any patents, if issued, would be held valid by a court of competent jurisdiction.

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 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 genetically modified cells to treat disease, disorder or injury.

If third party patents or patent applications contain claims infringed by the licensed technology and such claims or claims in issued patents 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 certain 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.

### **RESTRICTIVE AND EXTENSIVE GOVERNMENT REGULATION COULD SLOW OR HINDER OUR PRODUCTION OF A CELLULAR THERAPY THAT CAN BE SOLD TO END LINE USERS.**

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 and other necessary regulatory approvals is lengthy, expensive and uncertain. Thus, 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 profitable product.

### **OUR STOCK PRICE IS HIGHLY VOLATILE.**

The market price of our common stock has fluctuated and may continue to fluctuate. These fluctuations may be exaggerated since the trading volume of our common stock is volatile. These fluctuations may or may not be based upon any business or operating results. Our common stock may experience similar or even more dramatic price and volume fluctuations.

### **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 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.

### **WE ARE UNLIKELY TO PAY DIVIDENDS ON OUR COMMON STOCK.**

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. While our dividend policy will be based on our operating results and capital needs, we anticipate that all earnings, if any, will be retained to finance our future operations.

## MARKET PRICE INFORMATION AND DIVIDEND POLICY

Our common stock trades on the OTC Bulletin Board. The market for our common stock is limited, sporadic, and highly volatile. The following table sets forth the approximate high and low closing sales prices for our common stock for the last two fiscal years. The quotations reflect inter-dealer prices, without retail markups, markdowns, or commissions and may not represent actual transactions.

		<b>High Low</b>	
		<b>YEAR 2003</b>	
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
		<b>YEAR 2002</b>	
Quarter ended	December 31	\$1.50	\$1.50
Quarter ended	September 30	2.50	2.50
Quarter ended	June 30	0.00	0.00
Quarter ended	March 31	2.50	2.50

As of June 1, 2004, we had 107 stockholders of record. To date, we have never declared or paid any cash dividends nor do we expect to pay any dividends in the near future. Our current policy is to retain earnings, if any, to provide funds for operating and expansion of our business. This policy will be reviewed by our board of directors from time to time in light of our earnings and financial position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### OVERVIEW

In June 2004, Sportan completed the Stock Transaction, where Sportan issued an aggregate of 6,386,439 of its shares of common stock to the former shareholders of PharmaFrontiers (in exchange for all of the outstanding capital stock of PharmaFrontiers), resulting in the former shareholders of PharmaFrontiers owning approximately 86% of the issued and outstanding Company common stock. PharmaFrontiers became a wholly-owned subsidiary of the Company, through which operations will be conducted. From an accounting standpoint, PharmaFrontiers is deemed the acquirer in a reverse merger whereby PharmaFrontiers is deemed the survivor of the merger. The combined company will pursue PharmaFrontiers' business model and strategy by competing in the biotechnology industry, specifically the research and development of adult pluripotent stem cells derived from adult human peripheral blood.

PharmaFrontiers has not generated any profits since its inception in January 2003, has no source of revenues, and has incurred significant operating losses. As of December 31, 2003, it generated \$126,003 in losses. Due to the nature of the biotechnology industry, we do not expect to generate revenue until future years, and we expect expenses to increase substantially in the next few years.

The discussion in the "Results of Operation" below relate only to PharmaFrontiers. Please review Sportan's prior Exchange Act filings for a discussion of its last result of operations.

### RESULTS OF OPERATIONS

#### **Inception to March 31, 2004.**

Net Sales. We recorded no sales from inception to March 31, 2004. Additionally, we do not foresee any sales in the current fiscal year. As of the date hereof, we have not developed any products or methods from the technology described under the License. We make no assurances that any product or method will be ever developed and later

sold. Under the License, we are allowed to sublicense to third parties and receive royalty income. As of the date hereof, we have not sublicensed our technology. We make no assurances that we will sublicense our technology.

General and Administrative Expenses. Our general and administrative expenses was \$593,213 from inception to March 31, 2004. We anticipate our general and administrative expenses to increase in the future.

Net loss. The Company had a net loss from inception to March 31, 2004 of \$669,031.

## **LIQUIDITY**

At March 31, 2004, the Company had available cash of approximately \$61,000. The Company's current burn rate is approximately \$40,000 per month. We believe that we will need to raise a minimum of \$250,000 to meet our working capital needs for the balance of the 2004 calendar year. We anticipate our monthly cash burn to increase as we implement our business strategy and we will need to raise additional working capital during 2004 to fund our business strategy. The Company does not have any income from operations nor do we expect any income from operations in the foreseeable future, and thus, we must finance our obligations entirely by external sources. The Company has no firm commitments or arrangements for external financing. We will use our best efforts to obtain equity or debt financing to fund operations. We provide no assurance that we will be successful in any future financing effort to obtain the necessary working capital to support our operations. Our viability is contingent upon our ability to receive external financing.

## **ITEM 6. RESIGNATIONS OF REGISTRANT'S DIRECTORS**

**Inapplicable.**

## ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Pharmafrontiers Corporation  
Tomball, Texas

We have audited the accompanying balance sheet of Pharmafrontiers Corporation, ("Pharma")(a development stage company), as of December 31, 2003 and the related statements of operations, changes in stockholders' deficit and cash flows for the year ended December 31, 2003. These financial statements are the responsibility of Pharma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pharma as of December 31, 2003 and the results of its operations and its cash flows for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Pharma will continue as a going concern. As discussed in Note 2 to the 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**MALONE & BAILEY, PLLC**  
www.malone-bailey.com  
Houston, Texas

May 23, 2004

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
BALANCE SHEET  
December 31, 2003

ASSETS	
Current Assets	
Cash	\$ 68
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable	\$ 137
Accrued expenses	7,505
Notes Payable	61,394
	-----
Total Current Liabilities	69,036
	-----
Commitments and Contingencies	
	-
Stockholders' Deficit	
Preferred stock, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	-
Common stock, \$.00001 par value, 50,000,000 shares authorized, 3,543,750 shares issued and outstanding	35
Additional paid in capital	57,000
Accumulated deficit	(126,003)
	-----
Total Stockholders' Deficit	(68,968)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 68
	=====

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

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
STATEMENTS OF OPERATIONS  
January 22, 2003 (Inception) to  
December 31, 2003

	2003
	-----
General and administrative	\$ 80,801
	-----
Net operating loss	(80,801)
Interest expense	(45,202)
	-----
NET LOSS	\$ (126,003)
	=====
Basic and diluted loss per share	\$ (.03)
Weighted average shares outstanding	3,543,750

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

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT  
January 22, 2003 (Inception) to  
December 31, 2003

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Deficit	Totals
Shares issued for cash	5,250,000	\$ 53	\$ 947	\$ -	\$ 1,000
Shares cancelled	(1,706,250)	( 18)	( 307)		(325)
Beneficial Conversion feature			28,180		28,180
Warrants			28,180		28,180
Net loss				(126,003)	(126,003)
Balances at December 31, 2003	3,543,750	\$ 35	\$ 57,000	\$(126,003)	\$( 68,968)

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

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
STATEMENTS OF CASH FLOW  
January 22, 2003 (Inception) to  
December 31, 2003

	2003
	-----
Cash Flows From Operating Activities	
Net loss	\$(126,003)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discount on notes payable due to warrants and beneficial conversion feature	42,755
Changes in:	
Accounts payable	137
Accrued liabilities	7,504
	-----
Net Cash Used In Operating Activities	(75,607)
	-----
Cash Flows from Financing Activities	
Common Stock issued for cash	675
Proceeds from convertible notes	75,000
	-----
Net Cash Provided By Financing Activities	75,675
	-----
Net change in cash	68
Cash at beginning of year	-
	-----
Cash at end of year	\$ 68
	=====

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

**PHARMAFRONTIERS CORPORATION**  
(A Development Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

Pharmafrontiers Corporation ("Pharma"), was incorporated in Texas on January 22, 2003. During the development stage, PharmaFrontiers plans to acquire the worldwide license to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory Operated by the University of Chicago ("Argonne"). The license provides PharmaFrontiers rights to utilize technology related to Pluripotent Stem Cell in Adults (the "License"). A patent application was filed, in November of 2003, with the United States Patent and Trade Office regarding the technology involved in the License. This technology allows the isolation of stem cells from an individual's blood.

**Cash Equivalents.** Highly liquid investments with original maturities of three months or less are considered cash equivalents. There were no cash equivalents as of December 31, 2003.

**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 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.

**Basic and Diluted Loss Per Share.** Basic and diluted loss per share equals net loss divided by weighted average shares outstanding during the period. Diluted loss per share includes the impact of common stock equivalents using the treasury stock method when the effect is dilutive. There were no common stock equivalents during 2003.

**Use of Estimates in Financial Statement Preparation.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Stock Options and Warrants.** Pharma accounts for non-cash stock-based compensation issued to non-employees in accordance with the provisions of

SFAS No. 123 and EITF No. 96-18, Accounting for Equity Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling Goods or Services. Common stock issued to non-employees and consultants is based upon the value of the services received or the quoted market price, whichever value is more readily determinable. Pharma accounts for stock options and warrants issued to employees under the intrinsic value method. Under this method, Pharma recognizes no compensation expense for stock options or warrants granted when the number of underlying shares is known and the exercise price of the option or warrant is greater than or equal to the fair market value of the stock on the date of grant.

Recently Issued Accounting Pronouncements. Pharma does not expect the adoption of recently issued accounting pronouncements to have a significant impact on their financial position, results of operations or cash flow.

**NOTE 2 - GOING CONCERN**

Pharma incurred a net loss of \$126,003 for the initial period ended December 31, 2003, and has negative working capital of \$68,698 as of December 31, 2003. These conditions create an uncertainty as to Pharma's ability to continue as a going concern. Management is seeking financing from third parties and sale or merger opportunities. The financial statements do not include any adjustments that might be necessary if Pharma is unable to continue as a going concern.

**NOTE 3 - INCOME TAXES**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 are as follows:

Net operating loss carryforward	\$	42,841
Less: valuation allowance		(42,841)
		-----
Net current deferred tax assets		-
		=====

Pharma has a net operating loss carryforward of \$126,003 which will expire in the year 2023.

**NOTE 4 - NOTES PAYABLE**

During 2003 Pharma borrowed \$75,000 from four individuals by issuing convertible notes. The notes bear interest at 8% per annum and have varying maturity dates. The holder of the notes may convert at \$0.50 per share given the stock has traded on a recognized exchange for an average of \$1.00 per share in any given 20 consecutive day period. The holder may also, at his sole discretion, purchase from Warren Lau, the President and CEO of the Company, two shares of the Company's common stock at a purchase price of \$0.10 per share for every \$1.00 in principal amount of the Note. Pharma may elect to extend each note by no more than six months. In consideration for such an extension, Pharma will allow the holder to purchase one share of common stock for every \$1.00 in principal of the note at an exercise price of \$1.00 per share. As of December 31, 2003, two notes totaling \$15,000 were in default.

## **NOTE 5 - EQUITY**

In February and March of 2003, Pharma issued 5,250,000 shares of common stock for \$1,000. On April 2, 2003, 1,706,250 shares were reacquired for \$325 and retired.

Additional contributions to capital of \$56,240 resulted from the discounted value to notes payable due to warrants and beneficial conversion features attached to convertible notes.

### **Warrants**

On February 27, 2003, 40,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion Note.

On March 28, 2003, 10,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion of the Note.

On June 11, 2003, 20,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion of the Note.

On August 27, 2003, 40,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion of the Note.

On October 8, 2003, 20,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion of the Note.

On July 4, 2003, 20,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$0.10 per share, vest immediately, and expire upon conversion of the Note.

On September 20, 2003, 5,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$1.00 per share, vest immediately, and expire upon conversion of the Note.

On December 1, 2003, 10,000 warrants were issued per terms of an 8% convertible note referenced in "Note 4 - Notes Payable". The warrants have an exercise price of \$1.00 per share, vest immediately, and expire upon conversion of the Note.

Summary information regarding warrants is as follows:

As of December 31, 2003, there were 165,000 warrants outstanding and exercisable with a weighted average price of \$.45 per warrant. The warrants will expire upon conversion of the Notes. As of May 26, 2004, all notes were either paid in full, or converted to shares of Pharma common stock.

## **NOTE 6 - SUBSEQUENT EVENTS**

### **Employee Agreements**

In January, 2004, Pharma entered into an employment agreement with its President and COO. The agreement provides an annual salary of \$98,000 per year with additional employee benefits as defined by the agreement. On February 23, 2004 500,000 shares were issued to the COO for services at a value of \$.40 per share.

On April 29, 2004, Pharma entered into an employment agreement with its Vice President of Corporate Development. The agreement provides for the issuance of 231,500 shares of common stock to the employee as well as, for consideration paid of \$100, two options, each to purchase at a price per share of 80% of the then current market value of common stock, 200,000 shares of Pharma's common stock. The options retire two and three years from the effective date of the agreement, respectively. The agreement will terminate on April 29, 2007.

On April 29, 2004, Pharma entered into an employment agreement with its Chief Financial Officer. The agreement provides for an annual salary of \$55,000. Additionally, the employee may purchase 150,000 shares of Pharma common stock at \$0.01 per share. As well, the agreement granted two options, each to purchase at a price per share of 80% of the then current market value of common stock, 50,000 shares of Pharma's common stock, one each upon the occurrence of the earlier of the following:(1) the acquisition of more than fifty percent of the stock of Pharma by an acquirer at a total market value exceeding two hundred fifty million dollars, or (2) a financing of Pharma with one time proceeds of at least ten million dollars which values the then outstanding Pharma common stock at one hundred million dollars or more. This agreement will terminate on April 29, 2005.

### **License Agreement**

On February 20, 2004 Pharma entered into an agreement with the University of Chicago for the worldwide license to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory Operated by the University of Chicago. In consideration for the license, Pharma paid the University \$25,000 and authorized the issuance of 375,375 shares of its common stock. Of which, 187,688 were issued on February 20, 2004 and 187,687 will be issued upon the successful rescue of diabetic mice by implantation of insulin producing cells generated from peripheral monocyte derived stem cells. Per agreement terms, upon the latter of a) testing monocyte derived stem cells in humans by any party, or b) issuance of a US patent to the University of Chicago related to UHCI# ANL-IN-02-021, Pharma will issue to the University, a number of shares of stock such that the University's ownership of Pharma stock is equal to 10% of the then fully diluted outstanding shares less the University's pro rata portion of the number of shares actually issued by Pharma as a whole or in partial consideration for any merger, stock purchase,

or other acquisition by Pharma of all or substantially all of the stock or assets of another company, or for any license to Pharma of additional technology related to the commercialization of Licensed Product.

### **Board of Directors Agreements**

In April and May of 2004, Pharma entered into agreements with four individuals that will comprise its Board of Directors. The agreements resulted in the authorization of 200,000 shares of common stock and compensation of \$22,000 per year. As of May 26, 2004, 180,000 shares of the authorized stock have been issued.

### **Stock Purchase Agreement**

On May 5, 2004 Pharma entered into an agreement with Sportan United Industries whereby Pharma will exchange 100 percent of its shares of common stock for the shares of common stock of Sportan. The closing of this transaction has not occurred as of May 26, 2004.

### **Convertible Notes Payable**

As of May 26, 2004, Pharma has issued fifteen additional 8% Convertible Notes totaling \$175,000. The terms of the Notes were consistent with those of NOTE 4. One note was settled in full by payment of cash. The principal and interest on all remaining notes have been converted into shares of common stock at a price of \$.40 per share resulting in the issuance of 607,501 shares of Pharma common stock. Also, as of May 26, 2004, all warrants attached to the 8% Convertible Notes with an exercise price of \$.10 have been exercised, resulting in the transfer of 352,002 shares from Warren Lau to various shareholders.

### **Related Party Transactions**

On February 23, 2004, 750,000 shares of Pharma common stock valued at \$.40 per share were issued to a major shareholder for \$.01 per share. The difference in the value of the stock less the cash paid to Pharma resulted in a \$292,500 expense.

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
BALANCE SHEET  
March 31, 2004  
(unaudited)

ASSETS	
Current Assets	
Cash	\$ 61,516
License	100,075
Property & equipment, net	3,575
	-----
Total Assets	\$ 165,166
	-----
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accrued expenses	\$ 12,088
Notes Payable	114,380
	-----
Total Current Liabilities	126,468
	-----
Commitments and Contingencies	-
Stockholders' Equity	
Preferred stock, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	-
Common stock, \$.00001 par value, 50,000,000 shares authorized, 4,981,438 shares issued and outstanding	50
Additional paid in capital	707,679
Accumulated deficit	(669,031)
	-----
Total Stockholders' Equity	38,698
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 165,166
	-----

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
STATEMENTS OF OPERATIONS  
Three Months Ended March 31, 2004, and  
Period from January 22, 2003 (Inception) to  
March 31, 2003 and 2004  
(unaudited)

	Three Months Ended March 31, 2004	Inception to March 31, 2003	Inception to March 31, 2004
	-----	-----	-----
General and administrative	\$ 512,411	\$ 674	\$ 593,213
Net operating loss	(512,411)	(674)	(593,213)
Interest expense	( 30,616)	-	( 75,818)
NET LOSS	\$ (543,027)	\$ (674)	\$ (669,031)
	=====	=====	=====
Basic and diluted loss per share	\$ (0.12)	\$ (0.00)	\$ (0.18)
Weighted average shares outstanding	4,376,771	2,559,375	3,752,005

PHARMAFRONTIERS CORPORATION  
(A Development Stage Company)  
STATEMENTS OF CASH FLOW  
Three Months Ended March 31, 2004, and  
Period from January 22, 2003 (Inception) to  
March 31, 2003 and 2004  
(unaudited)

	Three Months Ended March 31, 2004	Inception to March 31, 2003	Inception to March 31, 2004
	-----	-----	-----
Cash Flows From Operating Activities			
Net loss	\$ (543,028)	\$ (674)	\$ (669,031)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock issued for services	492,500	-	492,500
Amortization of discount on notes payable due to warrants and beneficial conversion feature	28,604	-	71,357
Depreciation	37	-	37
Changes in:			
Accounts payable	( 137)	-	-
Accrued liabilities	4,583	-	12,088
	-----	-----	-----
Net Cash Used In Operating Activities	( 17,441)	(674)	( 93,049)
	-----	-----	-----
Cash Flows From Investing Activities			
Purchase of license	( 25,000)	-	( 25,000)
Purchase of property & equipment	( 3,611)	-	( 3,611)
	-----	-----	-----
Net Cash Used In Financing Activities	( 28,611)	-	( 28,611)
	-----	-----	-----
Cash Flows From Financing Activities			
Common Stock issued for cash	7,500	1,000	8,176
Proceeds from convertible notes	100,000	-	175,000
	-----	-----	-----
Net Cash Provided By Financing Activities	107,500	1,000	183,176
	-----	-----	-----
Net change in cash	61,448	326	61,516
Cash at beginning of year	68	-	-
	-----	-----	-----
Cash at end of year	\$ 61,516	\$ 326	\$ 61,516
	=====	=====	=====

**PHARMAFRONTIERS CORPORATION**  
(A Development Stage Company)

**NOTES TO FINANCIAL STATEMENTS**  
(unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited interim financial statements of Pharmafrontiers Corporation, ("Pharma", a development stage company), have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Pharma's latest Annual Report filed with the SEC on Form 8-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year, 2003, as reported in Form 8-K, have been omitted.

**NOTE 2 - LICENSE AGREEMENT**

On February 20, 2004, Pharma entered into an agreement with the University of Chicago for the worldwide license to technology developed at Argonne National Laboratory, a U.S. Department of Energy Laboratory operated by the University of Chicago. In consideration for the license, Pharma paid the University \$25,000 and authorized the issuance of 375,375 shares of its common stock. Of which, 187,688 were issued on February 20, 2004 and 187,687 will be issued upon the successful rescue of diabetic mice by implantation of insulin producing cells generated from peripheral monocyte derived stem cells. Per agreement terms, upon the latter of a) testing monocyte derived stem cells in humans by any party, or b) issuance of a US patent to the University of Chicago related to UHCI# ANL-IN-02-021, Pharma will issue to the University, a number of shares of stock such that the University's ownership of Pharma stock is equal to 10% of the then fully diluted outstanding shares less the University's pro rata portion of the number of shares actually issued by Pharma as a whole or in partial consideration for any merger, stock purchase, or other acquisition by Pharma of all or substantially all of the stock or assets of another company, or for any license to Pharma of additional technology related to the commercialization of Licensed Product.

**NOTE 3 - STOCK PURCHASE AGREEMENT**

On May 5, 2004 Pharma entered into an agreement with Sportan United Industries whereby Pharma will exchange 100 percent of its shares of common stock for the shares of common stock of Sportan. The closing of this transaction has not occurred as of May 26, 2004.

**PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The following pro forma financial statements has been derived from the financial statements of Pharmafrontiers Corporation ("Pharma") at December 31, 2003 and adjusts such information to give effect to its reverse acquisition by Sportan United Industries, Inc. ("Sportan"), as if the acquisition had occurred at their respective year-ends as shown. The pro forma financial statements are presented for informational purposes only and do not purport to be indicative of the financial condition that would have resulted if the acquisition had been consummated at either year-end. The pro forma financial statements should be read in conjunction with the notes thereto and each Company's consolidated financial statements and related notes thereto contained herein and in Pharma's latest annual report filed with the SEC.

**Pro forma Consolidated Condensed Balance Sheet:**

	12/31/03 Pharma	9/30/03 Sportan	Adjustments	Pro-Forma
	-----	-----	-----	-----
Current Assets				
Cash	\$      68	\$    1,235		\$    1,303
	=====	=====		=====
Current Liabilities				
Accounts payable	\$      137	232,068		232,205
Accrued Expenses	7,505	21,371		28,876
Accrued salary to stockholder	-	281,152		281,152
Notes payable	61,394	-		61,349
Notes payable - related party	-	657,175		657,175
	-----	-----		-----
Total Liabilities	69,036	1,191,766		1,260,802
	-----	-----		-----
Preferred stock, \$.01 par, 50,000,000 shares authorized, none issued and outstanding	-	-		-
Common stock, \$.00001 par, 50,000,000 shares authorized, 3,543,750 shares issued and outstanding	35	-	(1)	35
Convertible Preferred stock, \$.001 par, 10,000,000 shares authorized, none issued and outstanding	-	-		-
Common stock, \$.05 par, 50,000,000 shares authorized, 666,789 and 7,053,728 shares				

issued and outstanding	-	33,339	(1)	(319,322)	352,661
Paid in capital	57,000	732,252	(1)	2,275,409	(1,486,157)
Accumulated Deficit	(126,003)	(1,956,122)	(1)	(1,956,122)	(126,003)
	-----	-----			-----
Total Stockholders' deficit	( 68,968)	(1,190,531)			(1,259,499)
	-----	-----			-----
Total liabilities and Stockholders' deficit	\$ 68	\$ 1,235			\$ 1,303
	=====	=====			=====

## **NOTES TO PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

On June 4, 2004 6,386,439 shares of Sportan common stock were issued to Pharma shareholders for all outstanding Pharma common shares.

### **ITEM 8. CHANGE IN FISCAL YEAR**

Concurrent with the Stock Transaction, the Company's management elected to change its fiscal year-end from September 30 to December 31. The Company's next periodic filing in accordance with the Securities Exchange Act of 1934, as amended, will be a Form 10-QSB for the three and six months ended June 30, 2004.

### **ITEM 9. REGULATION FD DISCLOSURE.**

**Inapplicable.**

### **ITEM 10. AMENDMENT TO THE REGISTRANT'S CODE OF ETHICS , OR WAIVER OF A PROVISION OF THE CODE of ETHICS.**

**Inapplicable.**

### **ITEM 11. TEMPORARY SUSPENSION OF TRADING UNDER REGISTRANT'S EMPLOYEE BENEFIT PLANS**

### **ITEM 12. RESULTS OF OPERATION AND FINANCIAL CONDITION**

The following exhibits are to be filed as part of this 8-k:

EXHIBIT NO.	IDENTIFICATION OF EXHIBIT
Exhibit 2.1(2)	Stock Purchase Agreement dated May 5, 2004.
Exhibit 3.1(1)	Articles of Incorporation of Sportan United Industries, Inc.
Exhibit 3.2(1)	Bylaws of Sportan United Industries, Inc.
Exhibit 4.1(1)	Common Stock Certificate, Sportan United Industries, Inc.

Exhibit 10.1(1) Sportan United Industries, Inc. 1999 Stock Option Plan Exhibit 10.2(2) Employment Agreement with Warren C. Lau Exhibit 10.3(2) Employment Agreement with William Rouse. Exhibit 10.4(2) Employment Agreement with Wayne Fritzsche. Exhibit 10.5(2) Director's Agreement with Jeffrey Adduci Exhibit 10.6(2) Director's Agreement with Robert H. Gow Exhibit 10.7(2) Director's Agreement with Warren C. Lau

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- (1) Filed previously on registration statement Form 10-SB SEC File No. 000-25513.
  - (2) Filed herewith.

### **SIGNATURES**

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

**SPORTAN UNITED INDUSTRIES, INC.**

By: Jason Otteson  
**Chief Executive Officer**

DATE: June 4, 2004

**END OF FILING**



**STOCK PURCHASE AGREEMENT**

**BY  
AND  
AMONG**

**SPORTAN UNITED INDUSTRIES, INC.,  
A TEXAS CORPORATION,**

**JASON G. OTTESON,**

**PHARMAFRONTIERS, CORP.,  
A TEXAS CORPORATION,**

**WARREN C. LAU,**

**AND**

**OTHER PHARMAFRONTIERS STOCKHOLDERS**

## STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "AGREEMENT") is made effective as of May 05, 2004, by and between SPORTAN UNITED INDUSTRIES, INC., a Texas corporation ("SPORTAN"), JASON G. OTTESON ("SPORTAN SHAREHOLDER"), PHARMAFRONTIERS CORP., a Texas corporation ("COMPANY"), WARREN C. LAU ("COMPANY SHAREHOLDER"), and PharmaFrontiers shareholders listed on the signature page are collectively referred to as the "STOCKHOLDERS").

### RECITALS

WHEREAS, the Stockholders are the record and beneficial owner of 6,266,439 shares of common stock of the Company, which represents all of the issued and outstanding common stock of Company ("Company Stock");

WHEREAS, the Stockholders desires to sell and Sportan desires to purchase from Stockholders all of the Company Stock upon the terms and subject to the conditions hereinafter set forth.

WHEREAS, the respective Boards of Directors of Sportan and the Company have determined that the exchange is fair to, and in the best interests of, such entities and have duly approved and adopted this Agreement and the transactions contemplated herein;

NOW, THEREFORE, in consideration of the premises and the mutual promises made herein, and in consideration of the representations, warranties, and covenants contained herein, the parties agree as follows:

### **ARTICLE I** **DEFINITIONS**

As used in this Agreement, the following terms have the meanings indicated:

- 1.01. Closing: The consummation of the transactions contemplated by this Agreement.
- 1.02. Closing Date shall mean the time and date that the Closing occurs.
- 1.03. Company Financial Statements shall consist of an audited balance sheet, statement of income, statement of cash flows, and statement of stockholder's equity of PharmaFrontiers Corp. for the calendar years ended December 31, 2002 and 2003, and an unaudited balance sheet, statement of income, statement of cash flows, and statement of stockholder's equity for the three months ended March 31, 2003 and 2004.
- 1.04. Company Last Balance Sheet Date shall mean the period ended March 31, 2004.
- 1.05. Company Stock shall mean all of the outstanding shares of capital stock of the Company.
- 1.06. GAAP: Generally accepted accounting principles.
- 1.07. Government shall mean any federal, state, local, municipal, or foreign government or any department, commission, board, bureau, agency, instrumentality, unit, or taxing authority thereof.
- 1.08. Intellectual Property means all (a) licenses (including the License Agreement), patents, patent applications, patent disclosures, and improvements hereto, (b) trademarks, service marks, trade dress, logos, trade names, and corporate and company names and registrations and applications for registration thereof, (c) copyrights and registrations and applications for registration thereof, (d) computer software, data, code sources and documentation, and improvements thereto, (e) trade secrets and confidential business information (including ideas, formulas, compositions, inventions whether patentable or unpatentable and whether or not reduced to practice, know-how, processes and techniques, plans, proposals, technical data, copyrightable works, financial, marketing, and business data, pricing and cost information, business and marketing plans, and customer and supplier lists and

information), (f) other proprietary rights, (g) copies and tangible embodiments thereof (in whatever form or medium), and (h) other intellectual and intangible property rights, including all registrations and applications therefore, and all continuations, continuations in part, and divisional applications.

1.09. Knowledge means knowledge after a diligent and reasonable investigation.

1.10. License Agreement shall mean the agreement between the University of Chicago ("UNIVERSITY") and PharmaFrontiers Corp., effective February 20, 2004 for the licensing of certain rights in inventions 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 and any rights appurtenant thereto.

1.11. Material Adverse Effect shall mean any change in the financial condition or operation of the business that would materially affect the Company's business adversely, including, but not limited to, material changes to management, business conditions, or financial condition.

1.12. Patent Application means U.S. Provisional Application No. 60/424,442, filed November 7, 2002 by a particular University which invention generally relates to methods of isolating, culturing, propogating, and differentiating adult stem cells derived from a subset of cultured peripheral blood monocytes.

1.13. SEC shall mean the Securities and Exchange Commission.

1.14. SEC Filing shall mean the following: (a) 10-KSB filed February 26, 2002, (b) 10-QSB filed April 24, 2002, (c) 10-QSB filed May 23, 2002, (d) 10-QSB/A filed July 15, 2002, (e) 10-QSB filed August 15, 2002, (f) 10-KSB filed January 2, 2003, (g) 10-QSB filed February 19, 2003, (h) 10-QSB filed May 20, 2003, (i) 10-QSB filed August 19, 2003, (j) 10-QSB/A filed August 20, 2003, (k) 10-KSB/A filed January 13, 2004, (l) 10-KSB filed January 13, 2004, (m) 10-QSB filed February 13, 2004, (n) 10-KSB/A filed March 01, 2004, and (o) DEFR 14C filed March 24, 2004.

## **ARTICLE II** **EXCHANGE**

On the basis of the representations, warranties, covenants, and agreements contained in this Agreement and subject to the terms and conditions of this Agreement:

2.01. Exchange. The Stockholders shall assign, transfer and convey at the Closing shares of Company Stock to Sportan in exchange for shares of Sportan common stock to be issued in the denominations as set forth in Schedule 2.01.

2.02. Purchase Price. The purchase price in consideration of the sale of all the Company shares of common stock shall be shares of Sportan common stock as Scheduled in Section 2.01.

2.03. Lock-Up/Leak-Out Agreement. As part of the consideration for entering into this Agreement and as a condition of Closing, Messrs. Lau, Mackler, Fritzsche, Jarquesy, Klausmeyer, Strawn and Gow agree to enter a lock-up/leak-out agreement with Sportan in the form attached hereto as Schedule

5.07. As part of the consideration for entering into this Agreement and as a condition of Closing, Jason Otteson, George Jarquesy, and Brewer & Pritchard, P.C. agree to enter a lock-up/leak-out agreement with Sportan in the form attached hereto as Schedule 6.07.7.

2.04. Tax Consequences. Each party shall be responsible for ascertaining and resolving its own tax consequences resulting from the transaction. No party shall make any representation as to any possible tax consequences arising as the result of the transaction. However, it is intended that the transaction contemplated hereby will qualify as a tax-free reorganization.

2.05. Consideration. The Company Stock referred to in Section 2.01 and the consideration to be paid by Sportan referred to in Sections 2.02 shall constitute all of the consideration to be paid in connection with the transactions contemplated by this Agreement.

2.06. The Closing. The "Closing" of the transactions contemplated by this Agreement shall be negotiated and concluded between Sportan, the Company, and the Stockholders on or before May 28, 2004 (the "Closing Date"), at the offices of Brewer & Pritchard, P.C., Three Riverway, Suite 1800, Houston, Texas 77056. The Stockholders will transfer to Sportan all of its right, title and interest in and to the Company now held or hereafter acquired by them in exchange for the consideration set forth herein. Such ownership interest in and to the Company will be transferred by the Stockholders to Sportan free and clear of any liens, encumbrances or other obligations.

**ARTICLE III**  
**REPRESENTATIONS AND WARRANTIES OF**  
**THE COMPANY AND THE COMPANY SHAREHOLDER**

The Company and Company Shareholder hereby agree, represent, and warrant to Sportan, on the date of this Agreement and on the Closing Date, as follows:

3.01. Organization and Qualification.

(a) The Company is a Texas corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, with all requisite power and authority to conduct its business and is not in breach of, or in default with respect to, any term of its Articles of Incorporation, Bylaws or other organizational documents, except where such breach would not have a Material Adverse Effect. As of the date hereof, the Company has 6,266,439 shares of common stock outstanding which includes shares issued pursuant to several debt conversions. The Company anticipates a debt conversion resulting in 120,000 shares being issued prior to closing, as set forth in Schedule 2.01. The Company has obtained all necessary consents, authorizations, approvals, orders, licenses, certificates, and permits of and from, and declarations and filings with, all federal, state, local, and other governmental authorities and all courts and other tribunals, to own, lease, license, and use its properties and assets and to carry on the business in which it is now engaged, except where the failure to do so would not have a Material Adverse Effect. The Company is duly qualified to transact the business in which it is engaged in every jurisdiction in which its ownership, leasing, licensing, or use of property or assets or the conduct of its business makes such qualification necessary, except where the failure to do so would not have a Material Adverse Effect.

(b) The Company does not have and has never had any subsidiaries and does not directly or indirectly own any equity interest in, or any interest convertible into or exchangeable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

3.02. Capitalization. The Stockholders collectively own one hundred (100%) percent of the issued and outstanding shares of common stock of the Company, which constitutes all of the outstanding capital stock of Company. The Company Stock is not owned or held in violation of any preemptive right of any other person or entity, is validly authorized, validly issued, fully paid and non-assessable, and is owned of record and beneficially by the Stockholder. The shares of Company Stock held by the Stockholders are free and clear of all liens, security interests, pledges, charges, encumbrances, voting agreements, and voting trusts. Except as set forth in Schedule 3.02, there is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, convertible debt agreement or other right calling for the issuance of, any shares of capital stock of the Company or any security or other instrument convertible into, exercisable for, or exchangeable for capital stock of the Company.

3.03. Due Authorization; Third Party Consents. The Company has the right, power, legal capacity, and authority to enter into and perform its obligations under this Agreement, and no approval or consent of any person other than the Company is necessary in connection with the execution, delivery, or performance of this Agreement. The execution, delivery, and performance of this Agreement by the Company has been duly authorized by its board of directors and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or the consummation of the transactions contemplated hereby. This Agreement constitutes a legal and binding obligation of the Company, and is valid and enforceable against the Company in accordance with its terms.

3.04. Litigation. There is not any suit, action, arbitration, or legal, administrative, or other proceeding or governmental investigation (formal or informal), pending or to the best of Company's or Company Shareholder's Knowledge threatened (or any basis therefor known to the Company or the Company Shareholder), with respect to the Company or the Stockholders (as it relates to the business of the Company), including but not limited to any action or claim under any federal,

state, local or other governmental act, rule, regulation, or any interpretations thereof, relating to environmental matters or the protection of the safety and health of persons connected with the Company's business (including but not limited to the transportation, treatment, storage, recycling, disposal, or release into the environment of hazardous or toxic materials or waste), or any basis on which any proceeding or investigation against the Company or the Stockholders might reasonably be undertaken or brought. The Company is not presently engaged in any legal action to recover monies due to the Company, for damages sustained by the Company, or amounts owed to the Company. During the five year period immediately preceding the Closing, the Company has neither received nor been a party to any written notice of violations, orders, claims, citations, complaints, penalties, assessments, court, or other proceedings, administrative, civil or criminal, at law or in equity.

3.05. Employees. The Company does not have or contribute to any pension, profit-sharing, option, other incentive plan, or other Employee Benefit Plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974), or have any obligation to or customary arrangement with employees for bonuses, incentive compensation, vacations, severance pay, insurance, or other benefits except as set forth in Schedule 3.05. Schedule 3.05 is a list of each employee and consultant and the compensation paid to each employee and consultant.

3.06. No Violation of Employee Contracts. No current or prior employee, consultant or Stockholder of the Company has any employment or consulting agreement with the Company, except as set forth in Schedule 3.06. To the knowledge of the Company and the Company Shareholder, no employee of the Company is in violation of any term of any contract, non-competition agreement, or any other contract or agreement or any restrictive covenant with, or any other common law obligation to, a former employer relating to the right of any such employee to be employed by the Company because of the nature of the business conducted by the Company or of the use of trade secrets or proprietary information of others. There is neither pending nor, to the Knowledge of the Company or the Company Shareholder, threatened, any actions, suits, proceedings, or claims with respect to any contract, agreement, covenant, or obligation referred to in the preceding sentence.

3.07. Contracts, Agreements and Instruments. Schedule 3.07 includes the following documents of the Company:

3.07.01. True and correct copies of all material contracts, agreements and other instruments of the Company (including but not limited to the License Agreement), as well as verbal understandings, involving an obligation on the part of the Company to pay or to render services, individually or in the aggregate, in excess of \$10,000 per year or to receive payments in excess of \$10,000 per year.

3.07.02. True and correct copies of all verbal and written contracts, arrangements, and understandings with officers, directors, and five percent or greater shareholders.

Except for matters which, in the aggregate, would not have a Material Adverse Effect or are otherwise disclosed in the Schedules attached hereto or in the Agreement, to the Knowledge of the Company and the Company Shareholder, no other party to any such contract, agreement, instrument, leases, or license is now in violation or breach of, or in default with respect to complying with, any material provision thereof, and each such contract, agreement, instrument, lease, or license contained in the Schedules hereto is in full force and effect and is the legal, valid, and binding obligation of the Company and is enforceable as to them in accordance with its terms. Neither the Company nor the Company Shareholder has Knowledge that any other party to any such contract listed in Schedule 3.07 has given notice of termination or taken any action inconsistent with the continuance of such arrangement or understanding, except for matters which, in the aggregate, would not have a Material Adverse Effect; and the execution, delivery, and performance of this Agreement will not prejudice any such arrangement or understanding in any way contained in the Schedules hereto, except for matters which, in the aggregate, would not have a Material Adverse Effect. The Company is not a member of a customer or user organization or of a trade association which relationship would be materially affected by the execution and performance of this Agreement.

3.08. Consents and Approvals; No Violation. The execution and delivery and performance of this Agreement by the Company will not (a) conflict with or result in any breach of any provision of the Articles of Incorporation, Bylaws or other organization documents of the Company, (b) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority (as defined herein), or where the failure to obtain such consent, approval, authorization or permit, or to make such filing or notification, would not in the aggregate have a Material Adverse Effect, (c) result in a material default (with or without due notice or lapse of time or both) (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, contract, license (including the License Agreement), agreement or other instrument or obligation to which the Company is a party or by which the Company or any of its assets may be bound, except for such defaults (or rights of termination, cancellation or

acceleration) as to which requisite waivers or consents have been requested, (d) result in the creation or imposition of any lien, charge or other encumbrance on the assets of the Company, or (e) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company or any of its assets.

3.09. Financial Statements. The Company has delivered to Sportan the Company Financial Statements. The Company Financial Statements fairly presents in all material respects the financial position of the Company to which it relates as of its date, and each of the related consolidated statements of operations and retained earnings and cash flows or equivalent statements in the Company Financial Statements (including any related notes and schedules) in accordance with generally accepted accounting principles. The accounts receivable and any other contingent asset reflected on the latest balance sheet of the Company arose from bona fide transactions in the ordinary course of business, and, to the best of the Company's Knowledge, are not subject to any offset or counterclaim.

3.10. Undisclosed Liabilities. There are no undisclosed and/or contingent liabilities that may bear upon the value of the Company's business and its financial condition.

3.11. Permits and Licenses. The Company has all permits, licenses, and other similar authorizations necessary for the conduct of its business as now being conducted by it, and it is not in default in any respect under any such permits, licenses, or authorizations, except for the absence of which would not have a Material Adverse Effect. Such permits, licenses, and other similar authorizations of the Company are as set forth in Schedule 3.11. Except as set forth in Schedule 3.11, no royalties, commissions, or fees are payable by the Company to any person by reason of the ownership or use of any intangible property. The Company is the sole and exclusive owner of all of its assets, does not use any of its assets by the consent of any other person and is not required to and does not make any payments to others with respect thereto. Except as set forth in Schedule 3.11, there are no material licenses, sub-licenses, or agreements relating to the use of any intangible property of the Company now in effect, and the Company and the Company Shareholder have no Knowledge that any intangible property of the Company is being infringed by others. No claim that would have a Material Adverse Effect on the business of the Company is pending or, to the Knowledge of the Company, threatened, or has been made since the Company's inception to the effect that, nor does the Company have any Knowledge that, the operation of the Company's business or any method, process, part, or material that the Company employs, conflicts in any material way with, or infringes in any material way upon any rights of the type enumerated above, owned by others.

3.12. Properties. The Company has good and valid title to all properties and assets used in its business or owned by it, free and clear of all liens, mortgages, security interests, pledges, charges, and encumbrances (except for liens for current taxes not yet due or disclosed on the Company's Last Balance Sheet).

3.12.01. Attached as Schedule 3.12 is a true and complete list of all properties and assets owned, leased, or licensed by the Company, including with respect to such properties and assets leased or licensed by the Company, a description of such lease or license. All such properties and assets owned by the Company are reflected on the Company Last Balance Sheet. All properties and assets owned, leased, or licensed by the Company are in good and usable condition (reasonable wear and tear, which is not such as to have a Material Adverse Effect on the operation of the business of the Company, excepted).

3.12.02. The properties and assets owned, leased, or licensed by the Company constitute all such properties and assets which are necessary to the business of the Company as presently conducted.

3.13. Hazardous Materials. The Company is not in the business of possession, transportation, or disposal of hazardous materials. If and to the extent that the Company's business has involved the possession, transportation, or disposal of hazardous materials, to the best of the Company's and the Company Shareholder's Knowledge, the Company has complied with any and all applicable laws, ordinances, rules, and regulations. To the Knowledge of the Company and the Company Shareholder, no employee of the Company has been exposed to hazardous materials such that exposure could cause damage to such employee.

3.14. Interest in Competitors. Except as set forth in Schedule 3.14, no shareholder, officer or director of the Company, nor any spouse or child of any shareholder, officer or director with authority to enter into contracts on behalf of the Company, has any direct or indirect interest in any competitor, supplier, or customer of the Company or in any person from whom or to whom the Company leases any real or personal property, or in any other person with whom the Company is doing business.

3.15. Tax and Other Liabilities. The Company does not have any present liability of any nature, accrued or contingent, of the type required to be reflected on a balance sheet or in appropriate footnotes prepared in accordance with GAAP, including, without limitation, liabilities for federal, state, local, or foreign taxes and liabilities to customers or suppliers, which could have a Material Adverse Effect upon the Company, other than the following:

i. Liabilities for which full provision has been made on the Company's Last Balance Sheet; and

ii. Other liabilities arising since the date of the Company's Last Balance Sheet and prior to the Closing in the ordinary course of business which are not inconsistent with the representations and warranties of the Company or any other provision of this Agreement.

Without limiting the generality of the foregoing, the amounts set forth as provisions for taxes on the Company Last Balance Sheet are sufficient for all accrued and unpaid taxes of the Company, whether or not due and payable and whether or not disputed, under tax laws, as in effect on the date of the Company's Last Balance Sheet or now in effect, for the period ended on such date and for all fiscal years prior thereto. The Company has filed all applicable tax returns required to be filed by it or has obtained applicable extensions and are not delinquent with respect to such extensions; have paid (or have established on the Company Last Balance Sheet a reserve for) all taxes, assessments, and other governmental charges payable or remittable by it or levied upon it or its properties, assets, income, or franchises, which are due and payable and have delivered to Sportan a true and correct copy of any report as to adjustments received by the Company from any taxing authority during the past five years and a statement as to any litigation, governmental or other proceeding (formal or informal), or investigation pending.

3.16. Changes or Events. Since the Company Last Balance Sheet Date:

3.16.01. There has been no event or condition affecting the Company which would have a Material Adverse Effect on the Company.

3.16.02. The Company has not authorized, declared, paid or effected any dividend or liquidation or other distribution in respect of the Company Stock or other equity interest or any direct or indirect redemption, purchase or other acquisition of any equity interest of the Company.

3.16.03. The Company has not had any changes in its condition (financial or otherwise), liabilities, assets, or business or in any of its business relationships, including relationships with suppliers or customers, that, when considered individually or in the aggregate, might reasonably be expected to have a Material Adverse Effect.

3.16.04. The Company has not experienced any destruction of, damage to, or loss of any asset (regardless of whether covered by insurance) that, when considered individually or in the aggregate, might reasonably be expected to have a Material Adverse Effect.

3.16.05. The Company has not experienced any labor disputes that, when considered individually or in the aggregate, might reasonably be expected to have a Material Adverse Effect.

3.16.06. The Company has not made any changes in accounting methods or practices (including, without limitation, any change in depreciation or amortization policies or rates), except for any such changes as were required by law.

3.16.07. The Company has not accepted a purchase order or quotation, arrangement or understanding for future sale of the products or services of the Company out of the ordinary course of business, which the Company expects will not be profitable.

3.16.08. Other than in the ordinary course of business, the Company has not increased the salary or other compensation payable or to become payable by the Company to any employee, or the declaration, payment, or commitment or obligation of any kind for the payment by the Company of a bonus or other additional salary or compensation to any such person.

3.16.09. The Company has not sold, leased, transferred, or assigned any of their assets, tangible or

intangible, other than for a fair consideration in the ordinary course of business;

3.16.10. No party has accelerated, terminated, modified or cancelled any agreement, contract, lease or license (or series of related agreements, contracts, leases and licenses) involving more than \$5,000 to which the Company is a party;

3.16.11. The Company has not made any loans to any person or entity, or guaranteed any loan;

3.16.12. The Company has not waived or released any right or claim of the Company;

3.16.13. To the Knowledge of the Company or the Stockholders, the Company has not suffered any loss or any threatened loss of any permit, license, qualification, special charter or certificate of authority held or enjoyed or formerly held or enjoyed by the Company which loss has had or upon occurrence might reasonably be expected to have a Material Adverse Effect;

3.16.14. The Company has operated its business in the ordinary course and consistent with past practices so as to preserve its business organization intact, to retain the services of its employees and to preserve its goodwill and relationships with suppliers, creditors, customers, and others having business relationships with it;

3.16.15. The Company has not issued any note, bond or other debt security or created, incurred or assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligations;

3.16.16. The Company has not delayed or postponed the payment of accounts payable and other liabilities outside the ordinary course of business;

3.16.17. The Company has not granted any license or sublicense of any rights under or with respect to any Intellectual Property owned or licensed by the Company;

3.16.18. The Company has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees, outside the ordinary course of business; and

3.16.19. The Company has not made any agreement to do any of the things described in the preceding clauses 3.16.01 through 3.16.18.

3.17 Intellectual Property. The Company does not own or have pending, nor has it licensed, any Intellectual Property, other than as described in Schedule 3.17 (the "Company Intellectual Property"). The Company Intellectual Property has not been the subject of any interference, opposition or cancellation proceedings. No Stockholder, employee of the Company or affiliate of the Stockholders, nor any other partnership or enterprise in which the Stockholders, any employee, or any relative or affiliate had or now has a 5% or greater ownership interest or other substantial interest, possesses any Intellectual Property which is used by the Company pursuant to any agreement or arrangement with such person. The Company has not received any written notice or written claim of infringement by the Company of the Intellectual Property of any third party. There is no infringement by others of the Intellectual Property of the Company. In addition, the Company has not defaulted on the License Agreement.

3.18. No Defaults. The consummation of the transactions contemplated by this Agreement will not result in or constitute any of the following: (i) a breach of any term or provision of any other agreement of the Company that will not be waived or released at Closing; (ii) a default or an event that will not be waived or released at Closing, and that, with notice or lapse of time or both, would be a default, breach, or violation of the Articles of Incorporation or Bylaws of the Company or of any lease, license (including the License Agreement), promissory note (including the 8% Convertible Subordinated Promissory Note), conditional sales contract, commitment, indenture, mortgage, deed of trust, or other agreement, instrument, any Intellectual Property, or arrangement to which the Company is a party or by which the Company or its assets are bound; (iii) an event that will not be waived or released at Closing and that would permit any party to terminate any agreement or to accelerate the maturity of any indebtedness or other obligation of the Company; (iv) the creation or imposition of any lien, charge, or encumbrance on any of the Company's assets; or (v) a violation of any law or any rule or regulation of any administrative agency or governmental body unrelated to the business or any order, writ, injunction or decree of any court, administrative agency or governmental body to which the Company is subject.

3.19. No Prohibited Payments. Neither the Company nor any employee, or agent of the Company, has made or authorized any payment of funds of the Company or on behalf of the Company prohibited by law and no funds of the Company have been set aside to be used for any payment prohibited by law.

3.20. Insurance. The Company represents that it has no insurance policies.

3.21. Completeness of Disclosure. No representation or warranty in this Agreement and no Appendix, Schedule, Exhibit, or certificate prepared by the Company pursuant hereto and no statement made or other document prepared by the Company and furnished to Sportan by the Company contains any untrue statement of a material fact or omits or will omit any material fact necessary in order to make the statements contained therein not misleading.

Each of the Stockholders represents and warrants the following:

3.22. Restricted Stock. Each Stockholder understands and acknowledges that all of the shares of the common stock of Sportan to be issued to them shall be issued under an exemption from registration provided for under Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Consequently, the Stockholders understand and acknowledge that such common stock will be "restricted stock" as that term is defined in Rule 144 promulgated under the Act, and that (a) appropriate legends will be imprinted upon all certificates for the shares of common stock of Sportan to be issued to the Stockholders, and (b) appropriate stop transfer orders will be entered in the stock transfer records of Sportan. In addition, the Stockholders represent his/her intention to acquire the shares of Sportan for his/her own account, for investment purposes only, and not with a view to any subsequent resale or distribution thereof.

3.23. Authorization. All action on the part of the individual Stockholders necessary for the authorization, execution and delivery of this Agreement by the Stockholders and the Company have been taken.

3.24. Title to the Shares. Each of the Stockholders owns, and is transferring to Sportan at the Closing, good, valid and marketable title to the number of shares of Company Stock set forth opposite the name of the Stockholders on the signature page hereof, free and clear of all liens, claims, options and encumbrances whatsoever. Each Stockholder represents that there are no outstanding options, warrants or rights to purchase or acquire any of the Company Stock of the individual Stockholders nor is the Company Stock owned by each Stockholder subject to any voting agreements, pledges, shareholders agreement or lock-up agreement, or rights of first refusals. Each of the Stockholders represents that the shares of Company Stock being transferred represent all the Company securities, of any kind, held by such Stockholder.

3.25. Purchase Entirely for His Own Account. The Sportan securities will be acquired for investment for each of the Stockholders' own account, not as a nominee or agent, and not with the view to the resale or distribution of any part thereof, and each of the Stockholders has no present intention of selling, granting any participation in, or otherwise distributing the Sportan securities. Each of the Stockholders have no contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person with respect to any of the securities of Sportan.

3.26. Disclosure of Information. Each of the Stockholders has reviewed the SEC Filings and has had the opportunity to ask questions of, and receive answers from, representatives of Sportan to obtain additional information regarding Sportan.

3.27. Accredited Investor. Each Stockholder hereby represents that he/she/it is an "accredited investor" as defined in Rule 501 of Regulation D of the Securities Act of 1933.

#### **ARTICLE IV**

#### **REPRESENTATIONS AND WARRANTIES OF SPORTAN AND SPORTAN SHAREHOLDER**

Sportan and the Sportan Shareholder hereby agree, represent, and warrant to the Company, on the date of this Agreement and on the Closing Date, as follows:

4.01. Organization. Sportan (a) is a corporation (i) duly organized, validly existing and in good standing under the laws of the State of Texas, and (ii) duly qualified and in good standing as a foreign corporation in each state in which it does

business, except where the failure to so qualify would not have a Materially Adverse Effect on its business or assets, and (b) has the corporate power and authority to own its properties and to carry on its business as now being conducted.

4.02 SEC Document. Sportan has made all of its SEC Filings that it has been required to make under the Act, and the Securities Exchange Act of 1934, as amended ("Exchange Act"). As of their respective dates, each of the SEC Filings complied substantially in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder. As of the Closing Date, the financial statements included in or incorporated by reference into the SEC Documents, including the related notes and schedules, have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby, are substantially correct and complete in all respects, and are consistent with the books and records of Sportan.

4.03. Authority, Binding Agreement. This Agreement has been approved by the Board of Directors of Sportan. No consents, authorizations or approvals, whether of a governmental agency or instrumentality or otherwise, are necessary in order to enable Sportan to enter into and perform this Agreement. This Agreement constitutes legal, valid and binding obligations of Sportan and is enforceable against Sportan in accordance with its terms.

4.04. Completeness of Disclosure. No representation or warranty in this Agreement and no Schedule prepared by Sportan pursuant hereto contains any untrue statement of a material fact or omits or will omit any material fact necessary in order to make the statements contained therein not misleading.

4.05. Capitalization. The authorized capital stock of Sportan consists of 50,000,000 shares of common stock and 10,000,000 shares of preferred stock, of which 1,030,339 shares of common stock are outstanding, and no shares of preferred stock are outstanding. Additionally, we reserved 31,700 shares underlying convertible debt, options, and warrants outstanding. All issued and outstanding Shares are validly issued, fully paid, non-assessable and free of preemptive rights. Except as set forth in Schedule 4.05, (i) there are no options, warrants, convertible debentures or any other obligation that require Sportan to issue additional shares of capital stock and (ii) none of the holders of Sportan common stock have anti-dilution rights, rights of first refusals, subscription rights or rights to purchase issuances of additional shares.

4.06. Tax and Other Liabilities. Except as set forth in Schedule 4.06, Sportan does not have any present liability of any nature, accrued or contingent, of the type required to be reflected on a balance sheet or in appropriate footnotes prepared in accordance with GAAP, including, without limitation, liabilities for federal, state, local, or foreign taxes and liabilities to customers or suppliers, which could have a Material Adverse Effect upon Sportan, other than the following:

i. Liabilities for which full provision has been made on Sportan's balance sheet for the period ended December 31, 2003; and

ii. Other liabilities arising since the date of Sportan's balance sheet for the period ended December 31, 2003 and prior to the Closing in the ordinary course of business which are not inconsistent with the representations and warranties of Sportan or any other provision of this Agreement.

Without limiting the generality of the foregoing, the amounts set forth as provisions for taxes on Sportan's last balance sheet are sufficient for all accrued and unpaid taxes of Sportan, whether or not due and payable and whether or not disputed, under tax laws, as in effect on the date of Sportan's last balance sheet or now in effect, for the period ended on such date and for all fiscal years prior thereto. Sportan has filed all applicable tax returns required to be filed by it or has obtained applicable extensions and are not delinquent with respect to such extensions; have paid (or have established on Sportan's last balance sheet a reserve for) all taxes, assessments, and other governmental charges payable or remittable by it or levied upon it or its properties, assets, income, or franchises, which are due and payable and have delivered to the Company a true and correct copy of any report as to adjustments received by Sportan from any taxing authority during the past five years and a statement as to any litigation, governmental or other proceeding (formal or informal), or investigation pending.

4.07. Monies Owed to Sportan Shareholder. Except as set forth in Schedule 4.07, Sportan Shareholder is owed no additional monies from Sportan under the Settlement and Release Agreement, and Sportan Shareholder has no right, option, or warrant to purchase Sportan common stock. In addition, Sportan Shareholder represents and warrants that his family members are owed no monies from Sportan and have no right, option, or warrant to purchase Sportan common stock. Except as set forth in Schedule 4.07, Sportan Shareholder is owed no monies for any loans, expenses, or claims that Sportan Shareholder has with Sportan.

**ARTICLE V**  
**CONDITIONS TO OBLIGATIONS OF SPORTAN**

The obligations of Sportan under this Agreement are subject, at the option of Sportan, to the following conditions:

5.01. Accuracy of Representations and Compliance with Conditions. All representations and warranties of Company or the Stockholders contained in this Agreement shall be accurate when made and, in addition, shall be materially accurate as of the Closing as though such representations and warranties were then made by Company or such Stockholders on the part of Company or any of the Stockholders. As of the Closing, the Company and the Stockholders shall have performed and complied with all covenants and agreements and satisfied all conditions required to be performed and complied with by any of them at or before such time by this Agreement.

5.02. Other Closing Documents. Company and the Stockholders shall have delivered to Sportan at or prior to the Closing such other documents as Sportan may reasonably request in order to enable Sportan to determine whether the conditions to their obligations under this Agreement have been met and otherwise to carry out the provisions of this Agreement.

5.03. Review of Proceedings. All actions, proceedings, instruments, and documents required to carry out this Agreement, or any agreement incidental thereto and all other related legal matters shall be subject to the reasonable approval of counsel to Sportan, and the Company shall have furnished such counsel for Sportan such documents as such counsel may have reasonably requested for the purpose of enabling them to pass upon such matters.

5.04. Legal Action. There shall not have been instituted or threatened any legal proceeding relating to, or seeking to prohibit or otherwise challenging the consummation of, the transactions contemplated by this Agreement or related agreements or to obtain substantial damages with respect thereto.

5.05. No Governmental Action. There shall not have been any action taken, or any law, rule, regulation, order, or decree proposed, promulgated, enacted, entered, enforced, or deemed applicable to the transactions contemplated by this Agreement by any federal, state, local, or other governmental authority or by any court or other tribunal, including the entry of a preliminary or permanent injunction, which, in the reasonable judgment of Sportan:

5.05.01. Makes any of the transactions contemplated by this Agreement illegal;

5.05.02. Results in a delay which affects the ability of Sportan to consummate any of the transactions contemplated by this Agreement; or

5.05.03. Otherwise prohibits, restricts, or delays consummation of any of the transactions contemplated by this Agreement or impairs the contemplated benefits to Sportan of the transactions contemplated by this Agreement.

5.06. Contractual Consents Needed. The parties to this Agreement shall have obtained at or prior to the Closing all consents required for the consummation of the transactions contemplated by this Agreement from any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which any of them is a party, or to which any of their respective businesses, properties, or assets are subject, except where the failure would not have a Material Adverse Effect.

5.07. Deliveries by Company and Stockholders:

5.07.1. The Company shall deliver a Certificate of President of Company in the form of Schedule 5.07.1.

5.07.2. Each Stockholder shall deliver a Certificate of Stockholders in the form attached hereto as Schedule 5.07.2.

5.07.3. Company shall deliver Company Financial Statements compliant with Regulation S-B.

5.07.4. Messrs. Lau, Mackler, Fritzsche, Jarquesy, Klausmeyer, Strawn and Gow shall deliver a Lock-Up/Leak-Out Agreement in the form of Schedule 5.07.4.

5.07.5. The Company shall deliver an intellectual property legal opinion in the form attached hereto as Schedule 5.07.5.

5.07.6. Each stockholder shall deliver certificates owned by each shareholder and duly executed stock powers in denomination set forth in Schedule 2.01.

5.07.7. Company Shareholder shall deliver a signed Escrow Agreement as set forth in Schedule 5.07.7.

5.07.8. Pursuant to the Escrow Agreement, Company Shareholder shall deliver a Sportan stock certificate in the amount of 100,000 shares of Sportan common as set forth in Schedule 5.07.8.

5.07.9. Company shall deliver Assumption Agreements (assuming the Employee Agreements and Director Agreements) as set forth in Schedule 5.07.9.

5.07.10. Company shall deliver Signature Pages of each Stockholder.

5.07.12. The Company shall deliver signed debt-to-equity conversion agreements where \$248,000 dollars of debt will convert into 620,000 shares of Company Stock in the form of agreement attached hereto as Schedule 5.07.12.

5.07.13. Robert H. Gow shall deliver his Employment Termination Letter.

5.07.14. George R. Jarquesy, Jr. Conflict Letter

**ARTICLE VI**  
**CONDITIONS TO OBLIGATIONS OF THE**  
**COMPANY AND THE STOCKHOLDER**

The obligations of the Company and the Stockholders under this Agreement are subject, at the option of the Company and the Stockholders, to the following conditions:

6.01. Accuracy of Representations and Compliance with Conditions. All representations and warranties of Sportan contained in this Agreement shall be accurate when made and, in addition, shall be materially accurate as of the Closing as though such representations and warranties were then made by Sportan on the part of Sportan. As of the Closing, Sportan shall have performed and complied with all covenants and agreements and satisfied all conditions required to be performed and complied with at or before such time by this Agreement.

6.02. Other Closing Documents. Sportan shall have delivered to the Company, at or prior to the Closing, such other documents as the Company may reasonably request in order to enable the Company to determine whether the conditions to its obligations under this Agreement have been met and otherwise to carry out the provisions of this Agreement.

6.03. Review of Proceedings. All actions, proceedings, instruments, and documents required to carry out this Agreement, or any agreement incidental thereto and all other related legal matters shall be subject to the reasonable approval of counsel to the Company and Sportan shall have furnished such counsel such documents as such counsel may have reasonably requested for the purpose of enabling them to pass upon such matters.

6.04. Legal Action. There shall not have been instituted or threatened any legal proceeding relating to, or seeking to prohibit or otherwise challenging the consummation of, the transactions contemplated by this Agreement or related agreements set forth as an exhibit hereto, or to obtain substantial damages with respect thereto.

6.05. No Governmental Action. There shall not have been any action taken, or any law, rule, regulation, order, or

decree proposed, promulgated, enacted, entered, enforced, or deemed applicable to the transactions contemplated by this Agreement by any federal, state, local, or other governmental authority or by any court or other tribunal, including the entry of a preliminary or permanent injunction, which, in the reasonable judgment of the Company:

6.05.01. Makes any of the transactions contemplated by this Agreement illegal;

6.05.02. Results in a delay which affects the ability of the Company to consummate any of the transactions contemplated by this Agreement;

6.05.03. Otherwise prohibits, restricts, or delays consummation of any of the transactions contemplated by this Agreement or impairs the contemplated benefits to the Company or the Stockholder of the transactions contemplated by this Agreement.

6.06. Other Agreements. Agreements set forth as exhibits or schedules to this Agreement shall have been duly authorized, executed, and delivered by the Parties thereto at or prior to the Closing, shall be in full force, valid and binding upon the Parties thereto, and enforceable by them in accordance with their terms at the Closing, and no party thereto at any time from the execution thereof until immediately after the Closing shall have been in violation of or in default in complying with any material provision thereof.

6.07. Deliveries by Sportan:

6.07.1. Sportan shall deliver a Certificate of President of Sportan in the form of Schedule 6.07.1.

6.07.2. Sportan shall deliver shares of Sportan stock in denominations as set forth in Schedule 2.01.

6.07.3. Sportan shall deliver a Hold Harmless Letter as set forth in Schedule 6.07.3.

6.07.4. Sportan shall deliver a signed Escrow Agreement as set forth in Schedule 6.07.4.

6.07.5. Pursuant to the Escrow Agreement, Sportan Shareholder shall deliver a Sportan stock certificate in the amount of 10,000 shares of Sportan common as set forth in Schedule 6.07.5.

6.07.6. Sportan shall deliver Board of Directors resolutions acknowledging that its officers and directors will resign and be replaced by Company officers and directors.

6.07.7. Jason Otteson, George Jarkesy, and Brewer & Pritchard, P.C. shall deliver a Lock-Up/Leak-Out Agreement in the form of Schedule 6.07.7. Sportan shall enter a registration rights agreement with George Jarkesy, Jason Otteson, and Brewer & Pritchard, P.C. in the form of Exhibit "A" to Schedule 6.07.7.

6.07.8. Sportan Shareholder shall deliver his Expiration of Employment Agreement Acknowledgement.

## **ARTICLE VII** **COVENANTS AND AGREEMENTS OF THE COMPANY**

The Company covenants and agrees as follows:

7.01 Public Statements. Before the Company shall release any information concerning this Agreement or the transactions contemplated by this Agreement which is intended for or may result in public dissemination thereof, the Company shall cooperate with Sportan, shall furnish drafts of all documents or proposed oral statements to Sportan for comment, and shall not release any such information without the written consent of Sportan. Nothing contained herein shall prevent the Company from furnishing any information to any governmental authority if required to do so by law.

7.02. Information. The Company agrees that it will not, and will cause its representatives not to, use any

information obtained pursuant to this Agreement, as well as any other information obtained prior to the date hereof in connection with its consideration of the transactions contemplated hereby and the entering into of this Agreement, for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. The Company shall keep confidential, and shall cause its representatives to keep confidential, all information and documents obtained pursuant to this Agreement), as well as any other information obtained prior to the date hereof in connection with its consideration of the transactions contemplated hereby and the entering into of this Agreement, unless such information (i) was already known to the Company, (ii) is disclosed with the prior written approval of the party to which such information pertains, (iii) is already present in the public domain, or (iv) is required to be disclosed by law. In the event that this Agreement is terminated or the transactions contemplated hereby shall otherwise fail to be consummated, the Company shall promptly cause all copies of documents or extracts thereof containing information and data as to Sportan to be returned to Sportan.

7.03. No Adverse Actions. Sportan agrees that it will not take any action from the date hereof to the Closing inconsistent with its representations, warranties, and covenants contained herein.

## **ARTICLE VIII** **COVENANTS AND AGREEMENTS OF SPORTAN**

Sportan covenants and agrees as follows:

8.01. Public Statements. Before Sportan shall release any information concerning this Agreement or the transactions contemplated by this Agreement which is intended for or may result in public dissemination thereof, Sportan shall cooperate with the Company, shall furnish drafts of all documents or proposed oral statements to the Company for comment, and shall not release any such information without the written consent of the Company. Nothing contained herein shall prevent Sportan from furnishing any information to any governmental authority if required to do so by law.

8.02. Information. Sportan agrees that it will not, and will cause its representatives not to, use any information obtained pursuant to this Agreement, as well as any other information obtained prior to the date hereof in connection with its consideration of the transactions contemplated hereby and the entering into of this Agreement, for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. Sportan shall keep confidential, and shall cause its representatives to keep confidential, all information and documents obtained pursuant to this Agreement), as well as any other information obtained prior to the date hereof in connection with its consideration of the transactions contemplated hereby and the entering into of this Agreement, unless such information (i) was already known to Sportan, (ii) is disclosed with the prior written approval of the party to which such information pertains, (iii) is already present in the public domain, or (iv) is required to be disclosed by law. In the event that this Agreement is terminated or the transactions contemplated hereby shall otherwise fail to be consummated, the Company shall promptly cause all copies of documents or extracts thereof containing information and data as to the Company to be returned to the Company.

8.03. No Adverse Actions. Sportan agrees that it will not take any action from the date hereof to the closing of this Agreement which would adversely affect Sportan.

## **ARTICLE IX** **INDEMNIFICATION**

9.01. Indemnification by the Company Shareholder. The Company Shareholder shall indemnify, defend and hold harmless Sportan against any damage, loss, claim, liability, cost or expense, including reasonable fees and disbursements of counsel, accountants, experts and other consultants (collectively, "Damages"), resulting from, arising out of, or based upon any misstatement or omission from any representation by, or any breach of warranty, covenant or agreement of the Company or the Company Shareholder contained herein ("Other Liabilities"). The maximum amount of indemnification shall be the lesser of 100,000 shares of Sportan common stock or \$300,000. Company Shareholder agrees that upon the date of the signing of this Agreement, Company Shareholder shall deliver to escrow agent shares of Sportan common stock as provided in Section 5.07.8.

9.02. Indemnification by Sportan Shareholder. The Sportan Shareholder shall indemnify, defend and hold harmless Sportan from and against any Damages resulting from, arising out of, based upon or occasioned by any misstatement or omission from any representations by, or any breach of warranty, covenant or agreement of, Sportan Shareholder contained herein. The maximum amount of indemnification shall be the lesser of 10,000 shares of Sportan common stock or \$100,000. Sportan Shareholder agrees that upon the date of the signing of this Agreement, Sportan Shareholder shall deliver to escrow agent shares of Sportan common stock as provided for in Section 6.07.5.

9.03 Indemnification Procedures. Promptly after receipt by a party (the "Indemnitee"), of notice of any action, suit, proceeding, audit, claim or potential claim (any of which is hereinafter individually referred to as a "Circumstance"), which could give rise to a right to indemnification for damages pursuant to Sections 9.01 or 9.02, the Indemnitee shall give the party who may become obligated to provide indemnification hereunder (the "Indemnitor") written notice describing the Circumstance in reasonable detail; provided, that failure of an Indemnitee to give such notice to the Indemnitor shall not relieve the Indemnitor from any of its indemnification obligations hereunder unless (and then only to the extent) that the failure to give such notice prejudices the defense of the Circumstance by the Indemnitee. Such Indemnitor shall have the right, at its option and upon its acknowledgment to the Indemnitee of Indemnitor's liability to indemnify Indemnitee in respect of such asserted liability, to compromise or defend, at its own expense and by counsel selected by Indemnitor, any such matter involving the asserted liability of the Indemnitee; provided, that any such compromise (i) shall include as an unconditional term thereof, the giving by the claimant or the plaintiff to such Indemnitee of a release from all liability in respect of such claim and (ii) shall not result in the imposition on the Indemnitee of any remedy other than monetary damages to be paid in full by the Indemnitor pursuant to this Section

9.03. If any Indemnitor shall undertake to compromise or defend any such asserted liability, it shall promptly notify the Indemnitee of its intention to do so, and the Indemnitee agrees to, and to cause its own independent counsel to, cooperate fully with the Indemnitor and its counsel in the compromise of, or defense against, any such asserted liability. All reasonable out-of-pocket costs and expenses incurred by the Indemnitee in connection with such cooperation (including, without limitation, the reasonable fees and expenses of the Indemnitee's own independent counsel) shall be borne by the Indemnitor. Under no circumstances shall the Indemnitee compromise any such asserted liability without the written consent of the Indemnitor (which consent shall not be unreasonably withheld), unless the Indemnitor shall have failed or refused to undertake the defense of any such asserted liability after a reasonable period of time has elapsed following the notice of a Circumstance received by such Indemnitor pursuant to this Section 9.03. Alternatively, Indemnitor may satisfy his indemnity obligation by returning for cancellation his Sportan common stock held in escrow to Sportan. Promptly after receipt by the Indemnitee of notice of any Circumstance, Indemnitee shall give Indemnitor and Escrow Agent written notice describing the Circumstance in reasonable detail. The Indemnitor has the right to instruct the Agent to deliver to Sportan Indemnitor's shares of Sportan common stock in the amount necessary to satisfy the value of the claim. Upon receipt of Indemnitor's shares of Sportan common stock, Sportan shall cancel and return to treasury the amount of Sportan common stock necessary to satisfy the indemnification obligation. Sportan's common stock value shall be determined by the last five days' average sales price prior to the date upon which indemnification is called. If any shares of Sportan common stock remain, Sportan shall deliver a new stock certificate with remaining Sportan shares to escrow agent.

9.04. Termination. Indemnification obligations of the Company Shareholder and Sportan Shareholder terminate twelve months after the date of the signing of this Agreement provided, however, that the escrow period will be extended if there is a claim made during the twelve-month period.

## **ARTICLE X MISCELLANEOUS**

10.01. Expenses. Sportan and the Company shall each be solely responsible for and bear all of its own respective expenses, including, without limitation, expenses of legal counsel, accountants, financial and other advisors, incurred at any time in connection with pursuing or consummating the definitive agreements and the Transaction contemplated herein.

10.02. Brokerage and Other Fees. Each party shall be responsible for the fees of their respective brokers and/or professionals (including, without limitation, legal and accounting fees) engaged to assist in the preparation, negotiation and counseling with respect, and relating, to this Agreement and consummation of the transactions contemplated herein, as well as their respective out-of-pocket expenses.

10.03. Further Actions. At any time and from time to time, the parties agree, at their expense, to take such actions and to execute and deliver such documents as may be reasonably necessary to effectuate the purposes of this Agreement.

10.04. Understanding and Advice of Counsel. The Company, the Stockholders, and Sportan have had the assistance of separate counsel (including, without limitation, tax counsel) in carefully reviewing, discussing and considering all terms of this Agreement; and, with the benefit of such advice by counsel, who has read and considered this Agreement, have agreed to execute the same. This Agreement shall not be construed against or unfavorably to any party because of such party's involvement in the preparation or drafting of this Agreement.

10.05. Modification. The Agreement and the schedules and exhibits hereto set forth the entire understanding of the parties with respect to the subject matter hereof supersede all existing agreements among them concerning such subject matter, and may be modified only by a written instrument duly executed by the Parties.

10.06. Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be delivered by personal delivery or by overnight delivery or mailed by certified mail, return receipt requested (or by the most nearly comparable method if mailed from or to a location outside of the United States), or delivered against receipt to the party to whom it is to be given at the address of such party set forth on the signature page to this Agreement. Any notice or other communication given by certified mail (or by such comparable method) shall be deemed given at the time of receipt thereof.

10.07. Waiver. Any waiver by any party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of that provision or of any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions will not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any waiver must be in writing and, in the case of a corporate party, be authorized by a resolution of the Board of Directors or by an officer of the waiving party.

10.08. Binding Effect. The provisions of this Agreement shall be binding upon and inure to the benefit of each party's respective successors, assigns, heirs, and personal representatives.

10.09. No Third-Party Beneficiaries. This Agreement does not create, and shall not be construed as creating, any rights enforceable by any person not a party to this Agreement.

10.10. Severability. If any provision of this Agreement is invalid, illegal, or unenforceable, the balance of this Agreement shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances.

10.11. Headings. The headings of this Agreement are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

10.12. Counterparts, Governing Law; Venue. This Agreement may be executed in any number of counterparts (facsimile signatures are sufficient), each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas without giving effect to conflict of laws. Venue of any dispute concerning this Agreement shall be exclusively in Harris County, Texas.

10.13.1. Survival of Representations and Warranties. All representations, warranties, covenants and agreements made by any party to this Agreement shall survive for a period of twelve months after the Closing, and upon expiration of such period, such representations and warranties shall expire.

10.14. Entire Agreement; Assignment. This Agreement (a) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, among the parties or any of them with respect to the subject matter hereof and  
(b) shall not be assigned by operation of law or otherwise.

10.15. Post-Closing. The parties agree to execute, deliver, and take action post-closing as necessary to effectuate any transaction herein contemplated.

IN WITNESS WHEREOF, the parties have duly executed this Agreement effective as of the date written in the preamble of this Agreement.

SPORTAN UNITED INDUSTRIES, INC., A TEXAS CORPORATION

PHARMAFRONTIERS CORP., A TEXAS CORPORATION

By: \_\_\_\_\_  
Jason G. Otteson, President

By: \_\_\_\_\_  
Warren C. Lau, President

Address: 3170 Old Houston Rd.  
Huntsville, TX 77340

Address: 10211 Silver Leaf Lane  
Tomball, TX 77375

SPORTAN STOCKHOLDER:

COMPANY SHAREHOLDER:

\_\_\_\_\_  
Jason G. Otteson

\_\_\_\_\_  
Warren C. Lau

**Number of Shares of Sportan Stock \_\_\_\_\_ Number of Shares of Company Stock:**

Address: \_\_\_\_\_ Address: 12011 Silver Leaf Lane \_\_\_\_\_ Tomball, TX 77375

**STOCKHOLDER:**

\_\_\_\_\_

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_



## **EMPLOYMENT AGREEMENT**

This Employment Agreement (the "Agreement") is entered into effective as between PharmaFrontiers, Corp., a corporation formed pursuant to the laws of the State of Texas, (the "Company"), and Warren C. Lau, an individual residing at 10211 Silver Leaf Lane, Tomball, Texas 77375 (the "Executive").

### **RECITALS**

WHEREAS, the Company is engaged in the business of acquiring, developing and commercializing biomedical technologies (the Company's Business); and

WHEREAS, Executive possess substantial knowledge and experience with respect to the Company's Business; and

WHEREAS, the Company desires to employ the Executive to have the benefits of (his/his/her) expertise and knowledge. The Executive, in turn, desires employment with the Company. The parties, therefore, enter into this Agreement to establish the terms and conditions of the Executive's employment with the Company.

In consideration of the mutual covenants and representations contained in this Agreement, the Company and the Executive agree as follows:

1. **EMPLOYMENT OF EXECUTIVE; DUTIES.** The Company agrees to employ the Executive and the Executive agrees to be employed by the Company, as President and Chief Operating Officer of the Company and as a member of its Board of Directors when elected as such, will have general supervision over the operations of the Company and will have such other duties and responsibilities, consistent with his position as President and Chief Operating Officer, as may reasonably be assigned to him by the Board of Directors of the Company. The Executive will report to the Board of Directors of the Company., for the period specified in Section 3 (the "Employment Period"), subject to the terms and conditions of this

Agreement. During the Employment Period, the Executive shall have such duties and responsibilities generally consistent with his/his/her

position and such other duties not inconsistent with his/her title and position as may be properly assigned to him/her by the Company in connection therewith, Executive shall expend such time as is reasonably necessary to fully perform his/her duties hereunder, shall devote his/her best efforts, experience and judgement to fully discharge his/her duties and responsibilities under this Employment Agreement and as reasonably contemplated hereby, and shall act in conformity with the written and oral policies of the Company and within the limits, budgets, business plans and instructions as set by the Company's Board of Directors. Executive shall be subject to the authority of the Company's Board of Directors.

2. PLACE OF EMPLOYMENT AND RELOCATION ALLOWANCE. Executive acknowledges that the Company's offices and headquarters are currently located in Tomball, Texas, which shall be the initial site of Executives employment. Executive further acknowledges that the Company may open additional offices in other countries and, in connection therewith; Executive may be required to temporarily reside in such other locations. Executive as a condition for his/her employment here under agrees, to maintain permanent residence in Tomball, Texas and to travel to such other locations as necessary to conduct the Company's Business. In connection therewith, Executive will, in good faith, undertake to apply for all required work permits and other documents, licenses and permits as required to affect the purposes hereunder. The Company shall reimburse Executive for all cost of living expenses including room and board while conducting the Company's Business outside of Tomball, Texas.

3. EMPLOYMENT PERIOD, The Employment Period shall begin on the date first written above and shall continue for three years, and shall be automatically extended for another three year period under the same terms and conditions, unless a written notice of discontinuation has been received by a party hereto at least 60 days in advance of the expiration date of this Agreement.

4. BASE SALARY. During the Employment Period, the Company shall pay

the Executive a minimum annual base salary of Ninety-Eight Thousand Dollars (\$98,000.00). The base salary shall be payable in equal periodic installments which are not less frequent than the periodic installments in effect for salaries of other senior executives of the Company. The base salary shall be subject to annual review by the Board of Directors ("Board") (or a committee appointed by

the Board) for upward adjustments based on the policies of the Company and the Executive's contributions to the Company's Business.

**ANNUAL BONUS.**

4.1 The Executive shall be entitled to an annual bonus (the "Annual Bonus") determined from time to time by the Board of Directors of the Company (without the active participation of the Executive). In determining the amount of any Annual Bonus, the Board of Directors may take into consideration such factors as they deem appropriate, including, but not limited to, the success of the Company in achieving profitable operations, in attracting investors, and in accomplishing other goals related to the business of the Company. Bonuses in addition to the Annual Bonus may be awarded by the Board of Directors (without the active participation of the Executive) from time to time for reaching other goals established by the Board of Directors.

**REIMBURSEMENT FOR EXPENSES.**

4.2 Company shall reimburse Executive for all reasonable out-of-pocket expenses paid or incurred by him in the course of his employment, upon presentation by Executive of valid receipts or invoices therefor, utilizing procedures and forms for that purpose as established by Company from time to time.

**VACATIONS.**

4.3 Executive shall be entitled to reasonable vacations (which shall aggregate no less than three (3) weeks vacation with pay) during each consecutive 12 month period commencing on the date hereof. Executive may not accumulate any vacation days which remain unused at the end of any year during the term hereof without the prior consent of Company.

5. BENEFITS. In addition to and except for the matters governed by this Agreement, the Executive shall be entitled to: (i) employee benefits and perquisites, including but not limited to pension, deferred compensation plans, stock options, group life insurance, disability, sickness and accident insurance and health benefits under such plans and programs as provided to other executives of the Company from time to time; and (ii) paid vacation as well as holidays, leave of absence and leave for illness and temporary disability in accordance with the policies of the Company.

5.1 Without limiting the generality of Section 5, above, the Company shall reimburse the Executive by means of a cash allowance for expenses incurred by the Executive in the use of his automobile in the performance of Executive's duties, along with the cost of garage, insurance, fuel, fluids and maintenance, upon such terms and conditions as are approved by Company. The Company shall pay or reimburse the Executive for the costs of a cellular telephone.

7.2 Subject to the approval of the Board of Directors of the Company, the Executive shall be provided with disability insurance providing for disability payments to the Executive following a termination of Executive's employment hereunder as a result of Disability (as defined in Section 8.2 below). In the event such policy is not obtained, Executive shall be entitled to participate in such disability plan(s) as are available to Company executives generally.

7.3 Subject to the Executive's meeting the eligibility requirements of each respective plan, Executive shall be offered the opportunity to participate in and be covered by each pension, life insurance, accident insurance, health insurance, hospitalization and any other employee benefit plan adopted by the Company, as the case may be, made available generally from

and after the date hereof to its respective executives, on the same basis as shall be available to such other executives without restriction or limitation by reason of this Agreement; provided, however, that Executive shall not participate in two or more plans providing duplicative benefits or coverage. The Company shall use its reasonable efforts to waive any qualifying period for participation in any such plan by the Executive.

7.4 Nothing herein contained shall prevent the Company from at any time increasing the compensation herein provided to be paid to Executive, either permanently or for a limited period, or from paying bonuses and other additional compensation to Executive, whether or not based upon the earnings of the business of Company, or from increasing or expanding any employee benefit program applicable to the Executive, in the event the Company, in its sole discretion, shall deem it advisable so to do in order to recognize and compensate Executive fairly for the value of his services.

#### 8. DEATH OR DISABILITY.

8.1 If Executive shall die during the term hereof, this Agreement shall immediately terminate, except that Executive's legal representatives or designated beneficiaries shall be entitled to receive (i) the Base Salary due to Executive hereunder to the last day of the third month following the month in which his death occurs, payable in accordance with the Company's regular payroll practices, (ii) a portion of the Annual Bonus payable under Section 4 (determined as provided under Section 8.4), based on the Company's Adjusted Net Income through the month of the bonus year preceding the month in which death occurs; and (iii) all other payments and entitlements available upon death under any employee benefit program covering the Executive as of the date of death. Except for the payments required pursuant to this Section 8.1, no payments shall be made for any period after Executive's death.

8.2 In the event of the Disability (as hereinafter defined) of the Executive, the Executive shall be entitled to continue to receive from the

Company and its several benefit plans an amount equal to his Base Salary (prorated as may be necessary) in accordance with the terms of Section 3 hereof through the last day of the third month following the month in which Executive's employment hereunder is terminated as a result of such Disability. At any time after the date of the Notice (as hereinafter defined) and during the continuance of the Executive's Disability, the Company may at any time thereafter terminate Executive's employment hereunder by written notice to the Executive. The term "Disability" shall mean physical or mental illness or injury which prevents the Executive from performing his customary duties for the Company for a period of twenty-five (25) consecutive business days or an aggregate period of ninety (90) days out of any consecutive twelve (12) months. The date of commencement of Disability shall be the date set forth in the notice of a determination of Disability (the "Notice") given by Company to the Executive at any time following a determination of Disability, which date shall not be earlier than the date the Notice is given by Company. A determination of Disability by Company shall be solely for the purposes of this Section 8.2 and shall in no way affect the Executive's status under any benefit plan applicable to the Executive.

8.3 Upon the occurrence of a Disability, and unless the Executive's employment shall have been terminated AS provided in Section 8.2, the Executive shall continue to perform such services for Company, consistent with his duties under Section 1 hereof, as he is reasonably capable of performing in light of the condition giving rise to a Disability. All payments due under Section 8.2 shall be payable in accordance with Company's regular payroll practices. Those payments, together with the aggregate amount of all periodic payments which the Executive is entitled to receive under all workers compensation plans, disability plans and accident, health or other insurance plans or programs maintained for the Executive by Company (or by any company controlling,

controlled by or under common control with the Company), shall be not less than Executive's Base Salary for the month or period in question.

8.4 If the Executive's employment is terminated due to Disability, the Executive shall be entitled, in addition to the payments described in Section 8.2, to a pro-rated portion of the Annual Bonus otherwise payable for the fiscal year in which such Disability occurs, determined by multiplying the Annual Bonus that would otherwise be payable by a fraction, the numerator of which is the number of days the Executive was employed during such fiscal year and the denominator of which is 360.

6. NON-DISCLOSURES; NON-COMPETITION. As a condition to the employment arrangement, Executive agrees to execute and comply with the terms and conditions of the "Employee Non-Disclosure, Non-Competition and Assignment of Inventions Agreement" attached hereto as Exhibit 1.

7. TERMINATION. 7.1 TERMINATION BY THE COMPANY.

(a) The Company, by action of its Board, may terminate the Executive's employment under this Agreement without Cause (as defined in herein) at any time by giving notice thereof to the Executive at least ninety (90) days before the effective date of such termination. The Employment Period shall terminate AS of the date of such termination of employment.

(b) The Company, by action of its Board, may terminate the Executive's employment under this Agreement for Cause at any time by notifying the Executive of such termination. For all purposes of this Agreement, the Employment Period shall end as of the date of such termination of employment. "Cause" means the Executive's: (i) persistent and repeated refusal, failure or neglect to perform the material duties of his/her employment under this Agreement (other than by reason of the Executive's physical or mental illness or impairment), provided that such Cause shall be deemed to occur only after the Company has given notice thereof to the Executive specifying in reasonable detail the conduct constituting Cause, and the Executive has failed to cure and correct his/her conduct within thirty (30) days after such notice; (ii) committing any act of fraud or embezzlement, provided that such Cause shall be deemed to occur only after the Company has given notice thereof to the Executive

specifying in reasonable detail the instances of such conduct, and the Executive has had the opportunity to be heard at a meeting of the Board; (iii) breach of the Employee Non-Disclosure, Non-Competition and Assignment of Inventions Agreement or of such other subsequent agreements entered into during the Employment Period that results in a material detriment to the Company; (iv) conviction of a felony (including pleading guilty to a felony); or (v) habitual abuse of alcohol or drugs.

7.2 **TERMINATION BY THE EXECUTIVE.** The Executive may terminate this Agreement at any time, for any reason or for no reason at all, by giving notice thereof to the Company at least ninety (90) days before the effective date of such termination. The Employment Period shall terminate as of the date of such termination of employment.

#### 10. TERMINATION UPON CHANGE OF CONTROL OR BY COMPANY WITHOUT CAUSE.

10.1 A "Change in Control" shall occur: (A) if any Person, or combination of Persons, (as hereinafter defined), or any affiliate of any Person, is or becomes the "beneficial owner" (AS defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) directly or indirectly, of securities of the Company representing twenty- five percent (25%) or more of the total number of outstanding shares of common stock of the Company; or (B) if individuals who, at the date of this Agreement, constitute the Board (the "Incumbent Directors") cease, for any reason, to constitute at least a majority thereof, provided that any new director whose election wa\$ approved by the favorable vote of at least 75% of the Incumbent Directors shall be treated as an Incumbent Director. For purposes hereof, "Person" shall mean any individual, partnership, joint venture, association, trust, or other entity, including a "group" as referred to in section 13(d)(3) of the Securities Exchange Act of 1934. 10.2 If a Change in Control occurs, and if there subsequently occurs a material adverse change, without the Executive's written consent, in the Executive's working conditions or status, including but not limited to a significant change in the nature or scope of the Executive's authority, powers, duties or

responsibilities, or a reduction in the level of support services or staff, then, whether or not such change would otherwise constitute a breach of this Agreement by the Company, this Agreement may be terminated by notice given by the Executive, specifying the Change of Control and significant adverse change or changes.

10.3 Upon the termination of this Agreement in accordance with Section 10.2 above, the Executive will be entitled, without any duty to mitigate damages, to:

(a) All unpaid Base Salary pro-rated up to the date of termination; and

(b) The greatest of (i) the full Annual Bonus for the entire year in which the termination referred to in Section 10.2 takes place, or (ii) the portion of the Annual Bonus earned from the first day of the fiscal year in which such termination occurred until the date of the Change of Control, or

(iii) the portion of the Annual Bonus earned from the first day of the fiscal year in which such termination occurred until the effective date of such termination; and

(c) A severance payment equal to the sum of (i) the Base Salary in effect for the prior fiscal year and (ii) the Annual Bonus paid (or payable) on account of such prior fiscal year; and

(d) All benefits available under the Company's employee benefit programs, to the extent applicable to senior executives voluntarily and amicably retiring from employment with the Company.

10.4 In the event that the Company shall actually or constructively terminate this Agreement without cause (and with or without a Change of Control), the Executive shall be entitled to the same payments, compensation and rights as provided in the case of a termination by the Executive under Section 10.3.

10.5 The payments, and other compensation and benefits to which the Executive is entitled under this Section 10 shall be made available to the Executive no later than ten (10) days after the date of any termination referred to in Section 10.2, 10.3 or 10.4.

10.6 In the event that Executive receives the payments, and other compensation and benefits referred to in this Section 10, he will be bound by the restrictive provisions of Section 12 for the period therein provided.

### 7.3 SEVERANCE BENEFITS.

(a) If the Executive's employment under this Agreement is terminated by the Company for Cause, by the Executive without Good Reason, the Company shall only pay the Executive a lump sum cash payment within thirty (30) days of the date of such termination, equal to the sum of: Executive's unpaid Base Salary earned to the termination date.

(b) "Good Reason" means: any material failure by the Company to pay or provide the compensation and benefits under this Agreement; provided that, in each such event, the Executive shall give the Company notice thereof which shall specify in reasonable detail the circumstances constituting Good Reason, and there shall be no Good Reason with respect to any such circumstances cured by the Company within thirty (30) days after such notice.

(c) If the Executive is entitled to receive payments or other benefits under this Agreement upon the termination of his/her employment with the Company, the Executive hereby irrevocably waives the right to receive any payments or other benefits under any other severance or similar plan maintained by the Company ("Other Severance Plan").

8. REPRESENTATION BY EXECUTIVE. The Executive represents and warrants to the Company that his/her employment hereunder will not conflict with or result in a violation or breach of, or constitute a default under any contract, agreement or understanding to which he/she is or was a party.(except as noted in Appendix 1)

9. NOTICES. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he has filed in writing with the

Company or, in the case of the Company, to the Company's principal executive offices.

10. WITHHOLDING TAXES. The Company shall have the right, but not the duty, to the extent permitted by law, to withhold from any payment of any kind due to the Executive under this Agreement to satisfy the tax withholding obligations of the Company under applicable law.

11. VALIDITY; COMPLETE AGREEMENT. The validity and enforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision hereof. This Agreement sets forth the entire understanding and embodies the entire Agreement of the parties with respect to the subject matter covered hereby and supersedes all prior or contemporaneous oral or written agreements, understandings, arrangements, negotiations or communications, . among the parties hereto.

12. AMENDMENT. This Agreement shall not be modified or amended except by written agreement of the parties hereto.

13. CHOICE OF LAW; JURISDICTION AND VENUE. This Agreement shall be governed by and construed in accordance with the law of the State of Texas.

14. COUNTERPART. This Agreement may be executed in any number of counterparts, all of which shall be considered one and the same agreement.

15. DELAY; PARTIAL EXERCISE. No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

16. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. The Company shall have the right to assign this Agreement to any of its respective affiliates. The rights and obligations of Executive under this Agreement are personal to him/her and no such right or obligation shall be subject to voluntary or involuntary alienation, assignment, or transfer.

17. MANDATORY ARBITRATION. DISPUTES REGARDING THE EXECUTIVE'S ENGAGEMENT BY THE COMPANY, INCLUDING, WITHOUT LIMITATION, ANY DISPUTE UNDER THIS AGREEMENT WHICH CANNOT BE RESOLVED BY NEGOTIATIONS BETWEEN THE COMPANY AND THE EXECUTIVE, BUT EXCLUDING ANY DISPUTES REGARDING THE EXECUTIVES COMPLIANCE WITH THE RESTRICTIONS CONTAINED IN THIS AGREEMENT, SHALL BE SUBMITTED TO, AND SOLELY DETERMINED BY, FINAL AND BINDING ARBITRATION CONDUCTED UNDER THE RULES OF ARBITRATION OF THE STATE OF TEXAS APPLICABLE TO EMPLOYMENT DISPUTES, AND THE

PARTIES AGREE TO BE BOUND BY THE FINAL AWARD OF THE ARBITRATOR IN ANY SUCH PROCEEDING. THE ARBITRATOR SHALL APPLY THE LAWS OF THE STATE OF TEXAS WITH RESPECT TO THE INTERPRETATION OR ENFORCEMENT OF ANY MATTER RELATING TO THIS AGREEMENT. ARBITRATION MAY BE HELD IN HARRIS COUNTY, TEXAS, OR SUCH OTHER PLACE AS THE PARTIES HERETO MAY MUTUALLY AGREE, AND SHALL BE CONDUCTED BY A QUALIFIED ARITRATOR APPOINTED UNDER THE LAWS OF THE STATE OF TEXAS. JUDGMENT UPON THE AWARD BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF.

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

**Witness**

**R**

**J**

**Witness**

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**Exhibit 1**

**EMPLOYEE NON-DISCLOSURE, NON-COMPETITION AND  
ASSIGNMENT OF INVENTIONS AGREEMENT**

The Undersigned Warren C. Lau, for and in consideration of his/her employment with PharmaFrontiers Corporation plus other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, intending to be legally bound by the terms and conditions of this Agreement, hereby agrees as follows:

1. RESPECTIVE PERSONS OR ENTITIES COVERED. UNDERSIGNED ACKNOWLEDGES that, as an employee of PharmaFrontiers, Corp., a Texas corporation, he/she may also be working closely with its respective subsidiaries and or parents (PharmaFrontiers, Corp and its respective parents and subsidiaries shall collectively hereinafter be referred to herein as the "Companies")

2. INVENTIONS. Undersigned agrees as follows:

A. DISCLOSURE. He/She will promptly disclose to the Companies and each of them, any invention, discovery, know-how, improvement, design, device, apparatus, composition, process, plans, programs, or use made, conceived or discovered by Employee, either solely or in collaboration with others, during the term of this Agreement which (i) relates in any way to the products, services processes or systems relating to any of the Companies respective businesses (ii) results from or is suggested by any work performed by Employee for any of the Companies (all the foregoing hereinafter referred collectively as "Inventions");

B. OWNERSHIP OF INVENTIONS. Each Invention shall be and remain the sole and exclusive property of the Companies, whether patented or not, and any Invention conceived within six months after termination of this Agreement shall be presumed to be the property of the Companies subject to proof of the Companies' satisfaction that such Invention was first conceived after the termination of this Agreement. In furtherance of the foregoing, Employee agrees to execute, acknowledge and deliver any and all documents and instruments as may be requested by the Companies (but without any additional compensation from the Companies) for the purpose of vesting title to any Invention in the Companies.

C. PRIOR INVENTIONS. Employee attaches as Schedule A hereto, concurrently with the execution hereof, a list and brief description of all unpatented Inventions or proprietary information, if any, made or

conceived by him/her prior to the date of this Agreement and which are to be excluded from the provisions of this Section. If no such list is attached at the time of the execution of this Agreement, it shall be conclusively presumed that Employee has waived any right he may have to any such Invention that relates to any of the Companies businesses.

**D. REPRESENTATION.** Employee represents and warrants to the Companies that except as set forth on Schedule B, attached hereto, neither he/she nor his/her Associates or Affiliates have any agreements with or obligations to any person or entity in conflict with any of the provisions of this Agreement.

**3. CONFIDENTIALITY.** Employee, covenants and agrees that he/she will not, at any time either during the term of this Agreement of thereafter, for a period of one year after the receipt by Employee of the last disclosure of proprietary information, reveal (or permit to be revealed where such is within his/her control) to a third party or use for his/her own benefit, without prior written consent of the Companies, any information pertaining to the Inventions, or any of the Companies' respective businesses including but not limited to information relating to research results, formulations, computer code, suppliers, employees, customers financial condition, procedures, tests, know-how, production, distribution, work and organizational methods, experimental results or trade secrets.

**4. NON-COMPETITION.** During the term of this Agreement and for a period of one year thereafter, Employee agrees that, except as contemplated by this Agreement, he/she shall not, without the prior written consent of the Companies, either individually or with others, directly or indirectly, as an employee, representative, partner, principal, agent, independent contractor, consultant, stockholder, or in any other capacity, participate in, engage in or have a financial interest in any activity, business or entity relating to or involved in the development, testing or marketing of products, services, systems or processes related to the Companies' respective businesses, except as provided in Schedule B.

Employee acknowledges that the claim for or the payment of any damages for breach of the provisions contained in this paragraph 4 shall not preclude the Companies from seeking injunctive or such other forms of relief as may be obtained in a court of law or equity. Employee acknowledges that he/she will be fully able to earn an adequate livelihood for himself/herself and his/her dependents if the provisions of this paragraph 4 shall be specifically enforced against him/her. In the event that any court of competent jurisdiction shall determine that any term, covenant, or condition of this paragraph 4 is void or unenforceable, such court shall have the powers and authority to modify this paragraph 4 in accordance with the original intent of the parties so as to make

such term, covenant or condition and the remainder of this Agreement valid and binding upon the parties hereto.

5. NON-SOLICITATION, During the term of this Agreement and for a period of one year thereafter, Employee agrees that he/she shall not, without the prior written consent of the Companies, either individually or with others, directly or indirectly solicit or hire any of the Companies' employees or key employees of the Companies' customers for employment with a person or entity involved in marketing products or services competitive with any of the Companies' respective businesses. Key employees include supervisory personnel, executives, personnel in charge of any department, section or subdivision, and project managers (or directors) and senior personnel on any individual project or projects. Employee further agrees that all customers of the Companies, and all prospective customers from whom Employee may have solicited business while engaged as an employee by the Companies hereunder, shall be solely the customers of the Companies. Employee therefore agrees that he/she will not, for a period of one year immediately following the termination of this Agreement, either directly or indirectly, solicit business, as to products or services competitive with those of the Companies respective businesses, from any of the Companies' customers within one year prior the termination of this Agreement.

The term "Employee" shall, for purposes of paragraphs 1 through 5 includes Employee along with any of Employee's Affiliates, Associates, or entities of which he/she is a Beneficial Owner. The term "Affiliate" shall mean a person controlling, controlled by or under common control with Employee and the term "control" (including the terms "controlling," "controlled by," and "under common control with") means the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise. The term "Associate," shall mean a relationship with: i) any corporation, or organization (other than the Companies) of which Employee or any of his/her Affiliates or Associates is a director, officer or partner, ii) any corporation, or organization (other than the Companies) of which Employee or any of Employee's Affiliates or Associates, directly or indirectly, are the beneficial owner of five percent (5%) or more of any class of equity securities; iii) any trust or other estate in which Employee or any of his/her Affiliates or Associates have a substantial beneficial interest or with respect to which Employee or any of his/her Affiliates or Associates serve as a trustee or in any other fiduciary capacity; or iv) Employee's spouse, or any blood relative of Employee, or any blood relative of Employee's spouse, or who is an officer or director, or partner of any Affiliate or Associate of Employee. The term "beneficial ownership" shall mean interests which Employee or his/her or Affiliates or Associates may possess which are substantially equivalent to those of ownership and are enjoyed by reason of any contract, understanding, relationship, agreement or other arrangement, whether or not such are set forth in a legally binding contract or document.

IN WITNESS WHEREOF, the Undersigned a/ ' ~- intending to  
be legay.bound, hereby executes and delivers this Agreement this ZQ',t- day ofd A~ 2004.

**Witness**

*/s/ Warren Lau*

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*Warren Lau*

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**Appendix 1**

Mr. Lau agrees not to compete in the fields of (1) Alkylating or Platinating agents for the Treatment of Cancer, (2) Biomodulating Agents for the treatment of Cancer, (3) Non-nucleoside Reverse Transcriptase Inhibitors for the treatment of HIV Infection/AIDS, (4) Cell Mediated Immunity Inducing Vaccines for the treatment/prevention of HIV infection/AIDS, (5) Viral Entry Inhibitors for the treatment of HIV infection/AIDS.



## **EMPLOYMENT AGREEMENT**

This Employment Agreement (this "Agreement") is made and entered into as of the day of 2,424', 2004, (the "Effective Date"), by and between C. W. Bill Rouse (hereinafter referred to as "Employee") and PharmaFrontiers Corporation (hereinafter referred to as "PharmaFrontiers").

### **WITNESSETH:**

WHEREAS, Employee desires employment with PharmaFrontiers on the terms and conditions below; and

WHEREAS, PharmaFrontiers' success requires the protection of its intellectual property, proprietary information and goodwill and PharmaFrontiers is willing to employ Employee, subject to the terms and conditions below;

NOW, THEREFORE, for and in consideration of the employment by PharmaFrontiers, the compensation and other remuneration paid and to be paid by PharmaFrontiers and received by the Employee for such employment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Employee, it is agreed by and between the parties hereto as follows:

#### **1. Employment**

PharmaFrontiers agrees to employ the Employee, and Employee agrees that Employee will devote Employee's full productive time, skill, and best efforts during the period of Employee's employment to such duties as may be reasonably assigned to Employee. Employee will faithfully and diligently endeavor to further the best interests of PharmaFrontiers during the period of Employee's employment.

#### **2. Term**

Unless earlier terminated in accordance with this Agreement, the term of the Employee's employment shall continue from the Effective Date for a period of one (1) year. Either PharmaFrontiers or Employee may terminate this Agreement on two (2) weeks' prior written notice in the event of a material breach of this Agreement by the other party.

#### **3. Duties and Title**

During the term of this Agreement, Employee shall have the title of and shall act as the Vice President, Operations and Administration, and Chief Financial Officer of PharmaFrontiers. Employee shall have the following responsibilities and duties: Employee shall report to PharmaFrontiers' President and the Company's Audit Committee, shall handle corporate administration matters, including the administration of finance and accounting, interface with the Company's accountants and attorneys to ensure timely securities regulatory filings, administration of contracts, and/or have such other responsibilities and duties as may be assigned to Employee by PharmaFrontiers' President and/or Board of Directors from time to time.

#### 4. Compensation

As compensation, PharmaFrontiers shall, upon the complete execution and delivery of this Agreement to PharmaFrontiers, grant Employee a salary of \$55,000 per year, paid monthly and allow Employee to purchase One Hundred Fifty Thousand (150,000) shares of the common stock of PharmaFrontiers at \$0.01 per share. In addition, PharmaFrontiers grants to Employee two (2) options, each to purchase, at a price per share of eighty percent (80%) of the then current market value, Fifty Thousand (50,000) shares of the common stock of PharmaFrontiers, one each upon the occurrence of the earlier of the following:

(1) the acquisition of more than fifty percent (50%) of the stock of PharmaFrontiers by an acquirer at a total market value exceeding two hundred fifty million dollars, or (2) a financing of PharmaFrontiers with one time proceeds of at least ten million dollars which values the then outstanding PharmaFrontiers common stock at one hundred million dollars or more. Employee's exercise of such options shall be pursuant to the execution of a stock purchase agreement with terms acceptable to PharmaFrontiers. Any compensation, salary and/or bonuses paid Employee shall be subject to such payroll and withholding deductions as may be required by law or the policies of PharmaFrontiers.

#### 5. Benefits

PharmaFrontiers will provide Employee with the benefits and insurance coverage as generally provided by PharmaFrontiers to its management employees, but only if and when such benefits and/or coverage are provided. As of the Effective Date, no such benefits or coverage are provided. If provided, such benefits and insurance coverages may be changed by PharmaFrontiers from time to time.

#### 6. Confidential and Proprietary Information; Documents

PharmaFrontiers shall provide Employee 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 Employee's tenure of employment, which are not generally available to the public or which are maintained as confidential by PharmaFrontiers.

6.2 Employee recognizes and acknowledges that Employee will have access to certain information of PharmaFrontiers that is confidential and proprietary and constitutes valuable and unique property of PharmaFrontiers. Employee agrees that Employee will not at any time, either during or subsequent to Employee's employment, disclose to others, use, copy or permit to be copied, except in pursuance of Employee's duties on behalf of PharmaFrontiers, its successors, assigns or nominees, any Confidential Information or know-how of PharmaFrontiers (whether or not developed by the Employee) without PharmaFrontiers' prior written consent. Employee further agrees to maintain in confidence any confidential information of third parties received as a result of Employee's employment with PharmaFrontiers\_

6.3 Employee further agrees to deliver to PharmaFrontiers at the termination of Employee's employment 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 Employee, solely or jointly with others, and which are IN Employee's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of PharmaFrontiers. In this regard, Employee hereby grants and conveys to PharmaFrontiers all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any biological materials, reports, records, papers summaries, photographs, drawings or other documents, and writings, copies, abstracts or summaries thereof, or any other works of authorship, which may be prepared by Employee or under Employee's direction or which may come into Employee's possession in any way during the term of Employee's employment with PharmaFrontiers which relate in any manner to the past, present or anticipated business of PharmaFrontiers.

6.4 Employee further agrees that Employee will not, during Employee's employment, receive from persons not employed by PharmaFrontiers, any confidential information not belonging to PharmaFrontiers, unless a valid agreement is signed by both an officer of PharmaFrontiers and by the disclosing party that states that PharmaFrontiers will not be in a confidential relationship with the disclosing party. Employee further agrees that Employee will not use or disclose to other employees of PharmaFrontiers, during Employee's employment with PharmaFrontiers, confidential information belonging to Employee's former employers, or any other third parties unless written permission has been given by such persons to PharmaFrontiers to use and/or disclose such information.

6.5 In the event of a breach or threatened breach of any of the provisions of Section 6, PharmaFrontiers shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Employee from using or disclosing, for Employee'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. Employee further agrees that any breach or threatened breach of any of the provisions of Section 6 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.

## Noncompetition/hTo-Hire Agreement

7.1 Employee agrees that, from the Effective Date until a period of [two (2) years] following the date of the termination of Employee's employment (the "Noncompetition Period"), Employee 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 services or licenses to intellectual property rights, in whole or in part, as are provided by PharmaFrontiers during the term of this Agreement.

7.2 Employee further agrees that during the Noncompetition Period and within the Noncompetition Territory Employee 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 Employee or for any other person, firm, or corporation.

7.3 Employee 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 Employee became acquainted during Employee's association with PharmaFrontiers, regardless of whether for the benefit of the Employee or for any other person, firm or corporation.

7.4 Employee agrees that the restraints created by the covenants in Section 7 are no greater than necessary to protect PharmaFrontiers' legitimate interests. Furthermore, Employee agrees that such covenants of Section 7 do not hinder, or otherwise cause hardship to Employee in finding and performing employment elsewhere upon termination of this Agreement. Similarly, Employee agrees that PharmaFrontiers' need for the protection afforded by the covenants of Section 7 is not outweighed by either the hardship to Employee or any injury likely to the public.

7.5 Employee agrees that this Section is ancillary to this Agreement, and independent of any other agreement related to Employee's employment with PharmaFrontiers, and Employee acknowledges that the consideration given by PharmaFrontiers for this Agreement includes PharmaFrontiers' agreement to provide to the Employee access to the Confidential information, as well as employment. Further, the existence of any claim or cause of action of Employee 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 Employee's covenants contained in this Agreement. In addition, this Agreement shall continue to be binding upon Employee in accordance with its terms, notwithstanding the termination of Employee's employment.

7.5 Employee agrees that Employee'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 Employee is in breach of this covenant not to compete, the time period of this covenant shall be extended for an amount of time that Employee is in breach.

## 8. Inventions and Other Intellectual Property

8.1 Employee 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 Employee'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 Employee's employment by PharmaFrontiers, 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. Any and all such Developments shall be the sole and exclusive property of PharmaFrontiers, whether patentable, copyrightable, or neither, and Employee agrees that Employee 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. Employee acknowledges and agrees that any and all such Developments conceived, created, or authored by him within the scope of Employee's employment 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 Employee authors any copyrightable work in any medium during the Term of this

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Agreement which relates or pertains in any way to PharmaFrontiers or any of the operations or activities of either and which was not prepared within the scope of Employee's employment, Employee 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 Employee's employment, and without limiting the generality of the foregoing, any Development of the Employee relating to any PharmaFrontiers subject matter on which Employee worked or was informed during Employee's employment by PharmaFrontiers shall be conclusively presumed to have been conceived and made prior to the termination of Employee's employment (unless the Employee clearly proves that such Development was conceived and made following the termination of Employee's employment), and shall accordingly belong, and be assigned, to PharmaFrontiers and shall be subject to this Agreement.

8.2 Without limiting the foregoing, Employee agrees at the request of PharmaFrontiers (but without additional compensation from PharmaFrontiers during Employee'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 Employee'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.

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

## 9. Conflicts of Interest

9.1 In keeping with Employee's fiduciary duties to PharmaFrontiers, Employee agrees that Employee shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that Employee shall promptly disclose to The Board of PharmaFrontiers any facts which might involve any reasonable possibility of a conflict of interest. Employee 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.

9.2 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 Employee would or might arise, and which should be reported immediately by Employee 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 Employee 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 Employee'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 Employee 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, employee or agent of any enterprise which is in competition with PharmaFrontiers or its dealers or distributors.

## 10. Activities Associated With Maintenance of Professional Status and Community Activities

PharmaFrontiers will reimburse Employee for the costs of activities associated with the maintenance of the Employee's professional status, including the payment of licensing fees and required continuing education, expenses for professional network meetings, as well as community activities.

## 11. Prior Discoveries

Employee attaches hereto, concurrently with the execution of this Agreement, a list and brief description of all unpatented inventions and discoveries, if any exist, made or conceived by Employee prior to Employee's employment with PharmaFrontiers and which are to be excluded from this Agreement. If no such list is attached at the time of execution of this Agreement, it shall be conclusively presumed that Employee has waived any right Employee may have to any such invention or discovery which relates to PharmaFrontiers' business.

## 12. Publicity

12.1 Employee agrees that PharmaFrontiers may use, and hereby grants PharmaFrontiers the nonexclusive and worldwide right to use, Employee's name, picture, likeness, photograph, signature, or any other attribute of Employee's persona (all of such attributes are hereafter collectively referred to as "Persona") in any media for any advertising, publicity or other purpose at any time, either during or subsequent to Employee's employment by PharmaFrontiers. Employee agrees that such use of Employee's Persona will not result in any invasion or violation of any privacy or property rights Employee may have; and Employee agrees that Employee will receive no additional compensation for the use of Employee's Persona. Employee further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of Employee's Persona by PharmaFrontiers shall be and are the sole property of PharmaFrontiers.

12.2 Employee further agrees that at no time shall Employee write, author, publish, distribute, or cause to be published or distributed any pictorial, graphic, or literary works, such as but without limitation, books, articles, stories, or pamphlets, in any medium of expression, tangible or intangible, that relate, describe, or pertain in any way to PharmaFrontiers OR TO the operations, activities, or employees of PharmaFrontiers without first obtaining the prior written consent of the Board of Directors of PharmaFrontiers to do so and also the prior written approval of the contents of any such work by the Board of Directors of PharmaFrontiers.

## 13. Remedies

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

#### 14. Miscellaneous

14.1 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 Employee and the successors and assigns of PharmaFrontiers. This Agreement may be assigned by PharmaFrontiers but is personal to the Employee and no rights, duties, and obligations of Employee hereunder may be assigned.

14.2 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 employees shall be construed to be a waiver of any succeeding breach of such provision, or as a waiver of the provision itself.

14.3 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.

14.4 Employee's obligations under this Agreement to PharmaFrontiers shall survive the termination, for whatever reason, of Employee's employment by PharmaFrontiers.

14.5 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 Employee and PharmaFrontiers and constitutes the sole and entire agreement between the Employee and PharmaFrontiers with respect to the subject matter of this Agreement.

14.6 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 Employee agree that the state and federal courts in Harris County, Texas, shall have personal jurisdiction and venue over PharmaFrontiers and Employee to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

14.7 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 C. Lau  
PharmaFrontiers Corporation 10211 Silver Leaf Lane Tomball, Texas 77375

**If to Employee, to:**

Mr. C. W. Bill Rouse  
2030 McClendon  
Houston, Texas 77030

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

14.8 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 Employee's salary and/or duties 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' TION EMPLOYEE**

By

**Warren C. Lau**

**C. W. Bill Rouse**



## **EMPLOYMENT AGREEMENT**

This Employment Agreement (this "Agreement") is made and entered into as of the day of 2Y, 2004, (the "Effective Date"), by and between R. Wayne Fritzsche

(hereinaft referred to as "Employee") and PharmaFrontiers Corporation (hereinafter referred to as "PharmaFrontiers-").

### **WITNESSETH.**

WHEREAS. Employee desires employment with PharmaFrontiers on the terms and conditions below; and

WHEREAS, PharmaFrontiers' success requires the protection of its intellectual property, proprietary information and goodwill and PharmaFrontiers is willing to employ Employee, subject to the terms and conditions below;

NOW, THEREFORE, for and in consideration of the employment by PharmaFrontiers, the compensation and other remuneration paid and to be paid by PharmaFrontiers and received by the Employee for such employment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Employee, it is agreed by and between the parties hereto as follows:

### **Employment**

PharmaFrontiers agrees to employ the Employee, and Employee agrees that Employee will devote the amount of time, skill, and efforts during the period of Employee's employment to such duties as may be reasonably assigned to Employee Employee will faithfully and diligently endeavor to further the best interests of PharmaFrontiers during the period of Employee's employment.

#### **2. Term**

Unless earlier terminated in accordance with this Agreement, the term of the Employee's employment shall continue from the Effective Date for a period of three (3) years. Either PharmaFrontiers or Employee may terminate this Agreement on two (2) weeks' prior written notice in the event of a material breach of this Agreement by the other party

### **Duties and Title**

During the term of this Agreement, Employee shall have the title of and shall act as the Vice President, Corporate Development, and be a member of the Scientific Advisory Board of PharmaFrontiers Employee shall have the following responsibilities and duties: Employee shall report to PharmaFrontiers' President, shall handle corporate strategy matters, includingg the negotiation of appropriate licensing, sublicensing, joint venture, affiliation and other agreements of PharmaFrontiers. shall advise the President and the Board of Directors of PharmaFrontiers on scientific and related matters, and/or have such other responsibilities and duties as may be assigned to Employee b PharmaFrontiers' President and/or Board of Directors from time to time

## **Compensation**

As compensation, PharmaFrontiers shall, upon the complete execution and delivery of this Agreement to PharmaFrontiers, issue to Employee Two Hundred Thirty One Thousand Five Hundred (231,500) shares of the common stock of PharmaFrontiers. In addition, PharmaFrontiers grants to Employee the right to purchase, and for consideration of one hundred dollars (\$100) Employee has purchased, two (2) options, each to purchase, at a price per share that is eighty percent (80%) of the then current market value, Two Hundred Thousand (200,000) shares of the common stock of PharmaFrontiers, upon the expiration of the two (2) year period from the Effective Date and the three (3) year period from the Effective Date, respectively; provided, however, that in the event of a change in control of PharmaFrontiers (defined as a transaction in which there is a change in the ownership of more than fifty percent (50%) of the stock of PharmaFrontiers entitled to elect directors), Employee may exercise all such options if Employee does so within thirty (30) days after Employee receives notice of such anticipated change in control. Employee's exercise of such options shall be pursuant to the execution of a stock purchase agreement with terms acceptable to PharmaFrontiers. Any other compensation, salary and/or bonuses paid Employee shall be subject to such payroll and withholding deductions as may be required by law or the policies of PharmaFrontiers.

## **Benefits**

PharmaFrontiers will provide Employee with the benefits and insurance coverage as generally provided by PharmaFrontiers to its management employees, but only if and when such benefits and/or coverage are provided. As of the Effective Date, no such benefits or coverage are provided. If provided, such benefits and insurance coverages may be changed by PharmaFrontiers from time to time.

## **Confidential and Proprietary Information; Documents**

6.1 PharmaFrontiers shall provide Employee 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 Employee's tenure of employment, which are not generally available to the public or which are maintained as confidential by PharmaFrontiers.

6.2 Employee recognizes and acknowledges that Employee will have access to certain information of PharmaFrontiers that is confidential and proprietary and constitutes valuable and unique property of PharmaFrontiers. Employee agrees that Employee will not at any time, either during or subsequent to Employee's employment, disclose to others, use, copy or permit to be copied, except in pursuance of Employee's duties on behalf of PharmaFrontiers, its successors, assigns or nominees, any Confidential Information or know-how of PharmaFrontiers (whether or not developed by the Employee) without PharmaFrontiers' prior written consent. Employee further agrees to maintain in confidence any confidential information of third parties received as a result of Employee's employment with PharmaFrontiers.

6.3 Employee further agrees to deliver to PharmaFrontiers at the termination of Employee's employment 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 Employee, solely or jointly with others, and which are in Employee's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of PharmaFrontiers. In this regard, Employee hereby grants and conveys to PharmaFrontiers all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any biological materials, reports, records, papers summaries, photographs, drawings or other documents, and writings, copies, abstracts or summaries thereof, or any other works of authorship, which may be prepared by Employee or under Employee's direction or which may come into Employee's possession in any way during the term of Employee's employment with PharmaFrontiers which relate in any manner to the past, present or anticipated business of PharmaFrontiers.

6.4 Employee further agrees that Employee will not, during Employee's employment, and on behalf of PharmaFrontiers receive from persons not employed by PharmaFrontiers, any confidential information not belonging to PharmaFrontiers, unless a valid agreement is signed by both an officer of PharmaFrontiers and by the disclosing party that states that PharmaFrontiers will not be in a confidential relationship with the disclosing party. Employee further agrees that Employee will not use or disclose to other employees of PharmaFrontiers, during Employee's employment with PharmaFrontiers, confidential information belonging to Employee's former employers, or any other third parties unless written permission has been given by such persons to PharmaFrontiers to use and/or disclose such information.

6.5 In the event of a breach or threatened breach of any of the provisions of Section 6, PharmaFrontiers shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Employee from using or disclosing, for Employee'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. Employee further agrees that any breach or threatened breach of any of the provisions of Section 6 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.

## 7. Noncompetition/No-Hire Agreement

7.1 Employee agrees that, from the Effective Date until a period of [two (2) years] following the date of the termination of Employee's employment (the "Noncompetition Period"), Employee 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.

7.2 Employee further agrees that during the Noncompetition Period and within the Noncompetition Territory Employee 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 Employee or for any other person, firm, or corporation.

7.3 Employee 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 Employee became acquainted during Employee's association with PharmaFrontiers, regardless of whether for the benefit of the Employee or for any other person, firm or corporation.

7.4 Employee agrees that the restraints created by the covenants in Section 7 are no greater than necessary to protect PharmaFrontiers' legitimate interests. Furthermore, Employee agrees that such covenants of Section 7 do not hinder, or otherwise cause hardship to Employee in finding and performing employment elsewhere upon termination of this Agreement. Similarly, Employee agrees that PharmaFrontiers' need for the protection afforded by the covenants of Section 7 is not outweighed by either the hardship to Employee or any injury likely to the public.

7.5 Employee agrees that this Section is ancillary to this Agreement, and independent of any other agreement related to Employee's employment with PharmaFrontiers, and Employee acknowledges that the consideration given by PharmaFrontiers for this Agreement includes PharmaFrontiers' agreement to provide to the Employee access to the Confidential information, as well as employment. Further, the existence of any claim or cause of action of Employee 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 Employees covenants contained in this Agreement. In addition, this Agreement shall continue to be binding upon Employee in accordance with its terms, notwithstanding the termination of Employee's employment.

7.6 Employee agrees that Employee'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 Employee is in breach of this covenant not to compete, the time period of this covenant shall be extended for an amount of time that Employee is in breach.

### **Inventions and Other Intellectual Property**

8.1 Employee 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 Employee'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 Employee's employment by PharmaFrontiers, 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 Employee is an inventor as determined by U.S. patent law for any invention, Employee 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 Employee agrees that Employee 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 Employee acknowledges and agrees that any and all such Developments conceived, created, or authored by him within the scope of Employee's employment 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 Employee 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 not prepared within the scope of Employee's employment, Employee 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 Employee's employment, and without limiting the generality of the foregoing, any Development of the Employee relating to any PharmaFrontiers subject matter on which Employee worked or was informed during Employee's employment by PharmaFrontiers shall be conclusively

presumed to have been conceived and made prior to the termination of Employee's employment (unless the Employee clearly proves that such Development was conceived and made following the termination of Employee's employment), and shall accordingly belong, and be assigned, to PharmaFrontiers and shall be subject to this Agreement.

8.2 Without limiting the foregoing, Employee agrees at the request of PharmaFrontiers (but without additional compensation from PharmaFrontiers during Employee'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 Employee'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 in the conduct of any proceedings or litigation in regard thereto.

S 3 All expenses incurred by the Employee by reason of the performance of any of the obligations set forth in this Section on Inventions shall be borne by PharmaFrontiers. Should the Employee's assistance be requested by PharmaFrontiers after termination of employment, PharmaFrontiers would compensate the Employee AT a reasonable rate.

### **Conflicts of Interest**

9.1 In keeping with Employee's fiduciary duties to PharmaFrontiers, Employee agrees that Employee shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof allow such a conflict to continue. Moreover, Employee agrees that Employee 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 nature configured and practicing business\_ Employee 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.

9.2 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 Employee would or might arise, and which should be reported immediately by Employee 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 Employee 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 Employee'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 Employee 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, employee or agent of any enterprise which is in competition with PharmaFrontiers or its dealers or distributors.

#### 10. Activities Associated With Maintenance of Professional Status and Community Activities

PharmaFrontiers will reimburse Employee for the costs of activities associated with the maintenance of the Employee's professional status, including the payment of licensing fees and required continuing education, expenses for professional/network meetings, as well as community activities.

#### **11. Prior Discoveries**

Employee has no unpatented inventions and discoveries made or conceived by Employee prior to Employee's employment with PharmaFrontiers that relate to stem cell isolation, identification and/or expansion and/or cell banking as of the Effective Date

#### 12. Publicity

12.1 Employee agrees that PharmaFrontiers may use, and hereby grants PharmaFrontiers the nonexclusive and worldwide right to use, Employee's name, picture, likeness, photograph, signature, or any other attribute of Employee's persona (all of such attributes are hereafter collectively referred to as "Persona") in any media for any advertising, publicity or other purpose at any time, either during or subsequent to Employee's employment by PharmaFrontiers. Employee agrees that such use of Employee's Persona will not result in any invasion or violation of any privacy or property rights Employee may have, and Employee agrees that Employee will receive no additional compensation for the use of Employee's Persona. Employee further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of Employee's Persona by PharmaFrontiers shall be and are the sole property of PharmaFrontiers.

12.2 Employee further agrees that at no time shall Employee write, author, publish, distribute, or cause to be published or distributed any pictorial, graphic, or literary works, such as but without limitation, books, articles, stories, or pamphlets, in any medium of expression, tangible or intangible, that relate, describe, or pertain in any way to PharmaFrontiers or to the operations, activities, or employees of PharmaFrontiers without first obtaining the prior written consent of the Board of Directors of PharmaFrontiers to do so and also the prior written approval of the contents of any such work by the Board of Directors of PharmaFrontiers.

### 13. Remedies

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

### 14. Miscellaneous

14.1 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 Employee and the successors and assigns of PharmaFrontiers. This Agreement may be assigned by PharmaFrontiers but is personal to the Employee and no rights, duties, and obligations of Employee hereunder may be assigned.

14.2 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 employees shall be construed to be a waiver of any succeeding breach of such provision, or as a waiver of the provision itself.

14.3 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.

14.4 Employee's obligations under this Agreement to PharmaFrontiers shall survive the termination, for whatever reason, of Employee's employment by PharmaFrontiers.

14.5 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 Employee and PharmaFrontiers and constitutes the sole and entire agreement between the Employee and PharmaFrontiers with respect to the subject matter of this Agreement.

14.6 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 Employee agree that the state and federal courts in Harris County, Texas, shall have personal jurisdiction and venue over PharmaFrontiers and Employee to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

14.7 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. George R. Jarkesy, Jr.  
PharmaFrontiers  
Corporation 10211 Silver  
Leaf Lane  
Tomball, Texas 77375

**If to Employee, to:**

Mr. R. Wayne Fritzsche  
[Address to be added]

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

14.8 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 Employee's salary and/or duties 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 CORPORATION EMPLOYEE**

By, \_\_\_\_\_:

**Printed Name**

sche

*/s/ R. Wayne Fritzsche*  
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*R. Wayne Fritz*  
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## **DIRECTOR'S AGREEMENT**

This Director's Agreement (this "Agreement") is made and entered into as of the 29 day of April, 2004, (the "Effective Date"), by and between Jeffrey H. Adduci (hereinafter referred to as "Director") and PharmaFrontiers Corporation (together with any successor to the business of PharmaFrontiers Corporation 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. Nomination as Director**

PharmaFrontiers agrees to nominate Director for election by the shareholders of PharmaFrontiers as a 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.

### **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 Twenty Thousand (20,000) shares of the common stock of PharmaFrontiers. In addition, PharmaFrontiers will pay Director the sum of \$5,000.00 annually for each year the 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, e lient 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.

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 business 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 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, tide, 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 cmarbress 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 Iimitation, 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 PharrnaFrontiers' 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





## **DIRECTOR'S AGREEMENT**

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

PharmaFrontiers agrees to nominate Director for election by the shareholders of PharmaFrontiers as a 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 ass 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 i~ 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 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.

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 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 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 C. Lau  
PharmaFrontiers Corporation

10211 Silver Leaf 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.

By X G 4I Robert H. Gow  
-----  
RATION DIRECTOR  
MAFRONTIERS CORPO

[GRAPHIC OMITED]

**PHAR**

**Warren C. La**

By

[GRAPHIC OMITED]

**Printed Name Printed Name**



## **DIRECTOR'S AGREEMENT**

This Director's Agreement (this "Agreement") is made and entered into as of the 28 day of April, 2004, (the "Effective Date"), by and between Warren C. Lau (hereinafter referred to as "Director") and PharmaFrontiers Corporation (together with any successor to the business of PharmaFrontiers Corporation 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. Nomination as Director**

PharmaFrontiers agrees to nominate Director for election by the shareholders of PharmaFrontiers as a 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 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 Twenty Thousand (20,000) shares of the common stock of PharmaFrontiers. In addition, PharmaFrontiers will pay Director the sum of \$5,000.00 annually for each year 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.

#### **2. 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 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.

### 3. 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.

#### 4. 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.

## 5. 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.

## 6. 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.

## 7. 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.

## 8. 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 PharmaFrolitiers.

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 C. Lau  
PharmaFrontiers Corporation  
10211 Silver Leaf Lane  
Tomball, Texas 77375

**If to Director, to:**

Mr. Warren C. Lau  
10211 Silver Leaf Lane  
Tomball, Texas 77375

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.

*By /s/ Warren C. Lau*

*By /s/ Warren C. Lau*

-----  
*Warren C. Lau*  
*Printed Name*

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*Warren C. Lau*  
*Printed Name*

