# COCRYSTAL PHARMA, INC.

## FORM 10-K
(Annual Report)

Filed 04/01/13 for the Period Ending 12/31/12

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| SIC Code | 2834 - Pharmaceutical Preparations |
| Industry | Pharmaceuticals |
| Sector | Healthcare |
| Fiscal Year | 12/31 |

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

# FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from_____to_____

Commission file number 333-146182

# BIOZONE PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

| **Nevada** | **20-5978559** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **550 Sylvan Avenue<br>Suite 101<br>Englewood Cliffs, NJ** | **07632** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code **(201) 608-5101**

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

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

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| | Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ | (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the Company’s most recently completed second fiscal quarter was approximately $205,334,007.

As of April 1, 2013, there were 63,142,969 shares of Common Stock, par value $0.001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

**BIOZONE PHARMACEUTICALS, INC.**

## PART I

### Forward-Looking Statements

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

### Item 1. Business.

### Overview – Primary Business

BioZone Pharmaceuticals, Inc. ("BioZone Pharma", the "Company" or "we"), through its wholly owned subsidiary, BioZone Laboratories, Inc. ("BioZone Labs"), primarily is engaged in the business of developing and manufacturing Over the Counter ("OTC") drug products and cosmetic and beauty products on behalf of third parties. In addition, through its wholly owned subsidiaries, Equalan LLC ("Equalan") and Baker Cummins Corp. ("Baker Cummins") the Company markets two lines of proprietary skin care products, under the brand names of Glyderm ® and Baker Cummins ® , respectively. The Company's other activities include the sale by its wholly owned subsidiary, Equachem LLC ("Equachem") of raw materials used in OTC drugs and cosmetic products, and the research and development of certain proprietary drug delivery technology, designed to increase the benefit of various generic pharmaceutical products by improving stability, bioavailability or absorption. These activities, including in particular, the research and development of our proprietary drug delivery technology ("DDT"), are not material to the Company's business, financial condition or results of operation. Our DDT research and development activities are in an early stage, having commenced during the year ended December 31, 2011, and have yet to generate a delivery agent that has been tested in combination with any drug in animals or humans under testing standards required by the US Food and Drug Administration ("FDA") for submission for approval. More than 95% of the Company's annual revenue for the years ended December 31, 2012 and 2011 and investment in property plant and equipment is related to the Company's OTC drug product and cosmetic and beauty product manufacturing business. The Company generated $17.2 million and $12.6 million of sales during the years ended December 31, 2012 and 2011, respectively, of which $16.2 million or 94% and $11.6 million or 92%, respectively, were generated by BioZone Labs from its third party contract manufacturing business. The Company operates under a single segment.

On February 22, 2013 and March 7, 2013, we liquidated Equachem and Equalan, respectively, and transferred their activities to BioZone Labs in an effort to reduce selling and administrative expenses.

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

The Company owns a 45% interest in BetaZone Laboratories LLC ("BetaZone") which is engaged in the development, sale and license of pharmaceutical and cosmetic products in Latin America. Equachem licenses the Company's proprietary QuSome ™ technology to BetaZone and other pharmaceutical manufacturers in exchange for sales based royalties. BetaZone has yet to pay any material royalties to Equachem as it has yet to generate any significant sales or license payments from products using our licensed technology. Royalties from other pharmaceutical manufacturers are approximately $100,000 per year and do not constitute a material component of our business.

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

Our principal executive offices are located at 550 Sylvan Avenue, Suite 101, Englewood Cliffs, NJ 07632. Our telephone number is (201) 608-5101. BioZone Labs' principal office is located at 580 Garcia Avenue, Pittsburg. California 94565. Its telephone number is (925) 723-1000.

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

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

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

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

**Other Business Activities – Proprietary Product Sales**

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

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

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

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

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

We employ two professionals in Pittsburg, CA, and one professional in Miami, Florida, who market and process orders for Glyderm ® and Baker Cummins products, respectively. We have no material major customers for these lines of products. Total Glyderm ® and Baker Cummins product sales for the year ended December 31, 2012 were approximately $886,000.

**Other Business Activities – Raw Material Sales and Technology Licensing**

Equachem sells raw materials containing our proprietary delivery agents that we refer to as QuSomes ® to United States manufacturers of OTC drugs and cosmetics. Also, it licenses the right to use QuSomes ® to certain OTC manufacturers and to BetaZone. Total Equachem sales and royalty revenue for the year ended December 31, 2012 was approximately $63,000.

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

**Research and Development**

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

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

Recently, we developed a pegylated lipid, which we refer to as EquaSomes ®, for use in combination with drugs administered by injection or infusion. We have yet to perform any human clinical studies with respect to any product candidate. In March 2011, we established a research and small scale lipid manufacturing facility, located in Princeton, New Jersey, to advance our efforts to formulate certain generic drug products with a combination of an active pharmaceutical ingredient and EquaSomes. In September 2012, we terminated research and development activities at this location, including personnel connected with such efforts and our former consultant. Dr. Nian Wu, a former consultant to the Company, agreed to use his best efforts to assume the lease of the facility pursuant to the terms of his Separation Agreement. Total research and development costs for the fiscal years ended December 31, 2012 and 2011 were $743,091 and $423,183, respectively.

**Intellectual Property**

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

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

**Customers and Marketing**

BioZone Labs sells products to more than fifty customers through two sales professionals who market development, formulation and manufacturing services to potential customers. During the year ended December 31, 2012, four customers accounted for approximately 28%, 21%, 7% and 5% of the Company's sales. Currently, our two largest customers are Matrix Initiatives and Savvier LLP. If any of these two customers discontinues or substantially reduces its purchases from us, it may have a material adverse effect on our business and financial condition. We believe that we have good relationships with our customers.

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

On December 18, 2012, Matrixx Initiatives initiated a voluntary recall of one lot of Zicam ® Extreme Congestion Relief nasal gel that we manufactured on their behalf (the "Product Recall"). Matrixx took this step after we informed Matrixx that we found a small amount of Burkholderia cepacia in a single sample of the product taken from the affected lot. Burkholderia cepacia poses little medical risk to healthy individuals. However, Burkholderia cepacia in a nasal spray could cause upper airway colonization and secondarily lead to respiratory infections in individuals with a compromised immune system or those with chronic lung conditions, such as cystic fibrosis. The organism is resistant to many antibiotics and may be difficult to eradicate in this sensitive population if an infection occurs. To our knowledge, Matrixx has not received any reports of illness.

On January 3, 2013, Matrixx sent BioZone Labs a Notice of Default under the Supply Agreement dated May 8, 2009 by and between BioZone and Zicam, LLC to formally notify BioZone Labs that Matrixx is handling the Product Recall and will require BioZone Labs to reimburse Matrixx for all costs and expenses related to the Product Recall. Preliminary estimates of the damages related to the Product Recall range from $1 million to $3 million.

**Manufacturing**

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

**Growth Strategy**

Our growth strategy for our contract manufacturing business is to increase sales by establishing a dedicated sales team with industry experience who will leverage our expertise in product development and formulation to attract new contract manufacturing customers. Our growth strategy for our proprietary brand business is to increase our promotional efforts through direct mail, internet and participation at trade shows.

**Competition**

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

**Government Regulation**

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

*U.S. Food and Drug Administration*

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

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

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

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

In January and November 2011, the FDA performed two separate GMP surveillance inspections of BioZone Labs' manufacturing facility and warehouse located at 580 Garcia Avenue, Pittsburg, CA. to audit our compliance against 21CFR Part 210 and Part 211, Good Manufacturing Practices with respect to our OTC drug product manufacturing procedures. Both inspections were routine GMP surveillance audits and were not triggered by any specific event, nor were they related to a specific product. At the conclusion of each audit, the FDA inspectors issued Form 483 Notice of Observations. The FDA's observations related to maintenance of data derived from tests necessary to assure compliance with established specifications, deviations from test procedures, standards for rejecting drug products failing to meet established specifications, maintenance of electronic records, accessibility of written records, preparation of GLP documentation concurrent with performance, process validation and warehouse controls. We provided adequate and timely responses to the FDA findings and provided commitments and timelines for the remediation of the conditions cited by the FDA. The FDA classified the inspections as VAI, Voluntary Action Indicated, and no Warning Letters were issued, which demonstrates the adequacy of our responses.

*Consumer Product Safety Commission*

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

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

*Federal Trade Commission*

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

*State Regulation*

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

*United States Pharmacopeial Convention*

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

**Product Liability**

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

**Seasonality**

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

**Employees**

We currently employ 66 full time and 35 seasonal employees at our Pittsburg, California facilities, two employees in Englewood Cliffs, New Jersey and one employee in Miami, Florida. These employees perform various, manufacturing, sales, marketing, research and development, and administration functions. We believe that our relations with our employees are good.

**Item 1A. Risk Factors.**

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below and other information contained in this annual report, including our financial statements and related notes before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In that case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

**Risks related to our Company**

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

We have recognized net losses for the years ended December 31, 2012 and 2011, and expect to incur a net loss for the year ended December 31, 2013. We are reviewing our manufacturing cost structure to identify inefficiencies and opportunities for reductions and our sales programs to identify opportunities for increasing sales volume. Although we anticipate that these efforts will reduce or eliminate ongoing losses and allow us to continue manufacturing operations for the foreseeable future, there can be no assurance that our cost reduction and increased sales efforts will prove successful.

**We have negative working capital.**

As of December 31, 2012, we had negative working capital of $5,255,220, which may impact our ability to raise needed capital. Our failure to raise capital when needed would adversely affect our growth opportunities and investment in capital expenditures.

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

The continuation of the Company as a going concern is dependent upon, among other things, the attainment of profitable operations and the ability of the Company to obtain necessary equity or debt financing. These factors, among others, raise substantial doubt regarding the Company's ability to continue as a going concern. Accordingly, the audit report prepared by our independent registered public accounting firm relating to the consolidated financial statements for the year ended December 31, 2012 and December 31, 2011 includes an explanatory paragraph expressing substantial doubt about its ability to continue as a going concern. Our auditor's going concern opinion may have a detrimental effect on our ability to obtain additional funding.

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

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

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

**Risks related to our industry**

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

All facilities where Rx and OTC drugs are manufactured, tested, packaged, stored or distributed must comply with the FDA's Current Good Manufacturing Processes ("cGMPs"). All of our drug products are manufactured, tested, packaged, stored and distributed according to cGMP regulations. The FDA performs periodic audits to ensure that our facilities remain in compliance with all appropriate regulations. Typically, after the FDA completes its inspection, it may or may not issue the Company a report on Form 483, Notice of Observations., containing the FDA's observations of possible violations of cGMP. These violations can range from minor to severe in nature. The degree of severity of the violation is generally determined by the time necessary to remediate the cGMP violation, and any adverse consequences for the consumer of our drug products. If the deficiency observations are determined to be severe, the FDA may elect to issue a Warning Letter to us. FDA guidelines specify that a warning letter be issued only for violations of "regulatory significance" for which the failure to adequately and promptly achieve correction may be expected to result in further enforcement action. In addition to making its concerns public, the FDA could impose sanctions including, among others, fines, product recalls, total or partial suspension of production and/or distribution, suspension of the FDA's review of product applications, injunctions and civil or criminal prosecution. These enforcement actions, if imposed, could have a material adverse effect on our operating results and financial condition. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. In January and November 2011, the FDA performed two separate GMP surveillance inspections of BioZone Labs to audit our compliance against 21CFR Part 210 and Part 211, Good Manufacturing Practices. Both inspections were routine GMP surveillance audits and were not triggered by any specific event, nor were they related to a specific product. At the conclusion of each audit, the FDA inspectors issued Form 483 Notice of Observations. We provided adequate and timely responses to the FDA findings and provided commitments and timelines for the remediation of the conditions cited by the FDA. The FDA classified the inspections as VAI, Voluntary Action Indicated, and no Warning Letters were issued, which demonstrates the adequacy of our responses. As of the date hereof, we have not received any additional correspondence from the FDA regarding these two inspections. We believe that the remedial actions we are taking adequately respond to the FDA's observations on Form 483. However, the FDA may conclude that our actions are insufficient to meet regulatory standards. If compliance is deemed deficient in any significant way, it could have a material adverse effect on our business. See "Government Regulation" in Item 1 for further discussion concerning Form 483 received by the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property.**

Our success also depends upon the skills, knowledge and experience of our scientific and technical personnel, our consultants and advisors and contractors. We enter into confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. These agreements generally require that the receiving party keep confidential and not disclose to third parties all confidential information developed by the receiving party or made known to the receiving party by us during the course of the receiving party's relationship with us. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to us will be our exclusive property. However, these agreements may be breached and may not effectively assign intellectual property rights to us. Our trade secrets also could be independently discovered by competitors, in which case we would not be able to prevent use of such trade secrets by our competitors. The enforcement of a claim alleging that a party illegally obtained and was using our trade secrets could be difficult, expensive and time consuming and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain meaningful trade secret protection could adversely affect our competitive position.

**We face significant competition.**

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

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

**Risks related to management**

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

We are highly dependent on Elliot Maza, our Chief Executive and Chief Financial Officer, Dr. Brian Keller, our President and Chief Scientific Officer, and Christian Oertle, our Chief Strategy Officer. We do not have "key person" life insurance. The loss of Mr. Maza, Dr. Keller or Mr. Oertle may have an adverse effect on our business. We have entered into three year employment contracts with Dr. Keller and Mr. Oertle. Each of the employment agreements may be terminated by the Company at will, subject to an obligation to pay severance for six months at the then applicable monthly base salary.

**Elliot Maza, our Chief Executive Officer, Chief Financial Officer and Secretary, devotes a portion of his business time to another enterprise.**

Elliot Maza, our Chief Executive Officer, Chief Financial Officer and Secretary, does not work for us exclusively as he is also the Consulting Chief Financial Officer of Intellect Neurosciences, Inc., a biotechnology company focused on the development of therapeutics for Alzheimer's disease. We do not consider Intellect Neurosciences, Inc. to be a competitor of the Company. Mr. Maza devotes approximately 7 hours per week to Intellect Neurosciences, Inc. matters.

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

Our officers and, directors and their affiliates own or control an aggregate of 10,639,467 shares of the Company's common stock, which represents approximately 16.9% of our issued and outstanding common stock as of March 29, 2013. Therefore, our officers and directors could exert substantial influence over election of our directors and our operations. Moreover, authorization to modify our Articles of Incorporation, as amended, requires only majority stockholder consent. This concentration of ownership could also have the effect of delaying or preventing a change in control. Additionally, potential conflicts of interest may arise between our officers and directors and our shareholders and our officers and directors may vote their shares in a way that our other shareholders do not approve.

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

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

**Risks related to our common stock**

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

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

Stockholders may experience wide fluctuations in the market price of our securities. These fluctuations may prevent a stockholder from obtaining a market price equal to the purchase price such stockholder paid when the stockholder attempts to sell our securities in the open market. In these situations, the stockholder may be required either to sell our securities at a loss or hold our securities for a longer period of time than planned.

Also, the inactive market for our common stock may impair our ability to raise capital, acquire other companies in exchange for stock, or recruit and retain managers with equity-based incentive plans. There has been limited trading in our common stock and there can be no assurance that an active trading market in our common stock will either develop or be maintained. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may cause short sellers to periodically enter the market in the belief that we will have poor results in the future. We cannot predict the actions of market participants and can offer no assurances that the market for our common stock will be stable or appreciate over time.

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

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

We plan to seek listing of our common stock on NYSE Amex Equities or Nasdaq within the next three years. However, we do not currently meet the initial listing standards of those exchanges and there are no assurances that we will be able to meet the initial listing standards of either of those or any other stock exchange, or that we will be able to maintain a listing of our common stock on either of those or any other stock exchange. Currently, we fall below the bid price requirement of $4.00 per share for Nasdaq and do not currently meet the corporate governance standards of either Nasdaq or NYSE Amex Equities. Until our common stock is listed on NYSE Amex Equities or Nasdaq or another stock exchange, we expect that our common stock will continue to trade on the Over-The-Counter Bulletin Board, where an investor may find it difficult to dispose of our shares of common stock.

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

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

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

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

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

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

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

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

**We lack proper internal controls and procedures.**

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

Management has identified certain material weaknesses relating to our internal controls and procedures. The reason for the ineffectiveness of our disclosure controls and procedures is the result of the lack of of formal documentation containing written procedures and controls that must be followed to ensure the filing of timely and accurate reports with the Securities and Exchange Commission and the lack of sufficient accounting staff to provide for segregation of duties and responsibilities with respect to our cash control over the disbursements related thereto.

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

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

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

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

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

**Item 2. Properties.**

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

BioZone Labs manufactures its products in a 20,000 s.f., cGMP facility owned by 580 Garcia Avenue, LLC, its consolidated VIE, and fills and stores its products at a 60,000 sq. ft. rented facility located at 701 Willow Pass Road, Pittsburg, CA. The lease for the Willow Pass Road facility expires on April 30, 2014 and provides for annual rentals of approximately $341,000.

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

Our corporate headquarters is located at 550 Sylvan Avenue, Englewood Cliffs, New Jersey, where we lease approximately 800 square feet of office space. The lease expires on June 30, 2013. Rent expense is approximately $2,250 per month.

**Item 3. Legal Proceedings.**

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

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

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

An action was commenced on March 19, 2012 against BioZone Labs, the Company and a former officer and director of the Company, Daniel Fisher in the United States District Court for the District of Maryland. The plaintiff alleges breach of contract and other commercial wrongdoing and seeks damages in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. The Company refutes the allegations and intends to vigorously defend against this action. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because, among other reasons, the complaint does not set forth a monetary demand.

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

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

On July 16, 2012, Daniel Fisher ("Fisher"), a former officer and director of the Company, commenced an action in the United States District Court for the Northern District of California against the Company and certain officers and investors thereof. Fisher asserts claims for breach of contract, conversion, wrongful termination, and unjust enrichment, and violation of the federal whistleblower statute arising from his former role as an officer and director of the Company and certain contractual agreements that he entered into with the Company. Fisher seeks $23 million in damages as against all defendants. The Company disputes Fisher's allegations, intends to vigorously defend them and has filed an action against Fisher in New York described below. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because it is at a very early stage.

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

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

On July 18, 2012, the Company filed a Summons with Notice in New York State Court against Fisher and 580 Garcia Properties, LLC alleging breach of contract, breach of fiduciary duty, negligence, and fraud claims arising from Fisher's former role as an officer and director of the Company. On November 16, 2012, the Company filed its Complaint in this action that specified the nature and extent of its claims against Fisher. The Company is seeking a minimum of $2 million in damages, together with the cancellation of 6.65 million shares of the Company's stock, and Fisher's forfeiture of property located at 580 Garcia Avenue, Pittsburg, CA, which property is used by the Company as a warehouse facility.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Market Information**

Our common stock has been quoted on the OTC Bulletin Board under the symbol "BZNE.OB since March 7, 2011 and prior to that under the symbol "ISFR". The following table sets forth the high and low prices as reported on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. Prior to May 19, 2011, there was no active market for our common stock. As of April 1, 2013, there were approximately 257 holders of record of our common stock.

| **Fiscal year ended December 31, 2011** | | |
|---|---|---|
| **Period** | **High** | **Low** |
| May 19, 2011 through June 30, 2011 | $ 5.50 | $ 1.50 |
| July 1, 2011 through September 30, 2011 | $ 4.65 | $ 1.50 |
| October 1, 2011 through December 31, 2011 | $ 4.64 | $ 3.68 |
| | | |
| **Fiscal year ended December 31, 2012** | | |
| January 1, 2012 through March 31, 2012 | $ 3.69 | $ 1.60 |
| April 1, 2012 through June 30, 2012 | $ 4.00 | $ 1.04 |
| July 1, 2012 through September 30 , 2012 | $ 4.00 | $ 0.51 |
| October 1, 2012 through December 31, 2012 | $ 3.46 | $ 0.51 |

The last reported sales price of our Common stock on the OTC Bulletin Board on March 29, 2013 was $1.05 per share.

**DIVIDEND POLICY**

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

**Securities Authorized for Issuance under Equity Compensation Plans**

We have not adopted an equity compensation plan to date.

**Recent Sales of Unregistered Securities**

On June 28, 2012, we issued 10% convertible promissory notes (the "June 2012 Convertible Notes") with an aggregate principal amount of $455,274 and warrants (the "June 2012 Warrants") to purchase 2,250,000 shares of our common stock at an exercise price of $0.40 per share to the holders of the Working Capital Notes and June 2012 Working Capital Notes with an aggregate amount of principle and accrued interest due as of such date equal to the aggregate principle amount of the June 2012 Convertible Notes. The Working Capital Notes and June 2012 Working Capital Notes were cancelled. The June 2012 Convertible Notes bear interest at the rate of 10% per annum and mature two years from their issue date. We may prepay any outstanding amounts owing under the June 2012 Convertible Notes, in whole or in part, at any time prior to the maturity date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earlier of the Maturity Date or the occurrence of an Event of Default (each as defined in the June 2012 Convertible Notes). The June 2012 Convertible Notes are convertible into shares of our common stock at an initial conversion price of $0.20 per share.

On June 13, 2012, we sold 10% promissory notes with an aggregate principal amount of $200,000 (the "June 2012 Working Capital Notes") to accredited investors for an aggregate purchase price of $200,000. The principal amount of the June 2012 Working Capital Notes is payable in cash on the date that is the earlier of receipt by the Company of $500,000 or more from any source (other than sales in the ordinary course of business) or three months from the issuance date. The June 2012 Working Capital Notes bear interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the June 2012 Working Capital Notes, in whole or in part, at any time prior to the maturity date.

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

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

On March 1, 2012, the Company issued 455,000 shares of its common stock to certain individuals who previously purchased shares of the Company's common stock on November 3, 2011 at a purchase price of $1.00 per share. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On February 24, 2012, we entered into a Securities Purchase Agreement with a purchaser pursuant to which we sold (i) $1,700,000 of 10% secured convertible promissory note due two years from the date of issuance and (ii) warrants to purchase 8,500,000 shares of the Company's common stock at an exercise price of $0.40 per share for gross proceeds to us of $1,700,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

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

On February 28, 2012 and February 29, 2012, we sold an additional $600,000 of Notes and issued Warrants to purchase an additional 3,000,000 shares of the Company's common stock to additional Buyers for gross proceeds to the Company of $600,000.

The entire principal amount and any accrued and unpaid interest on the Notes shall be due and payable in cash on the Maturity Date. The Notes bear interest at the rate of 10% per annum. The Notes are convertible into shares of the Company's common stock at an initial conversion price of $0.20 per share, subject to adjustment. The Company may prepay any outstanding amount due under the Notes, in whole or in party, prior to the Maturity Date. The Notes are subject to certain "Events of Defaults" which could cause all amounts due and owing thereunder to become immediately due and payable. Among other things, the Company's failure to pay any accrued but unpaid interest when due, the failure to perform any obligation under the Transaction Documents (as defined herein) or if any representation or warranty made by the Company in connection with the Transaction Documents shall prove to have been incorrect in any material respect, shall constitute an Event of Default under the Transaction Documents. The Warrant is immediately exercisable and expires ten years after the date of issuance. The Warrant has an initial exercise price of $0.40 per share. The Warrant is exercisable in cash or, while a registration statement covering the shares of Common Stock issuable upon exercise of the Warrant, or an exemption from registration, is not available, by way of a "cashless exercise".

The Company is prohibited from effecting a conversion of the Notes or exercise of the Warrants, to the extent that as a result of such conversion or exercise, the Buyer would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of such Note or exercise of such Warrant, as the case may be. In connection with the sale of the Notes and the Warrants, the Company and the collateral agent for the Buyers entered into a Pledge and Security Agreement (the "Security Agreement" and, collectively with the Securities Purchase Agreement, the Note and the Warrant, the "Transaction Documents") pursuant to which all of the Company's obligations under the Notes are secured by a first priority perfected security interest in all of the tangible and intangible assets of the Company, including all of its ownership interest in its subsidiaries. The Company has granted the Buyers "piggy-back" registration rights with respect to the shares of common stock underlying the Notes and the shares of common stock underlying the Warrants, for a period of twelve (12) months from the date of closing.

On January 25, 2012, we sold an aggregate of 700,000 units (the "Units") with gross proceeds to the Company of $350,000. Each Unit was sold for a purchase price of $0.50 per Unit and consists of: (i) one share of Common Stock and (ii) a four-year warrant to purchase fifty (50%) percent of the number of shares of Common Stock purchased at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events (the "Warrant"). The Warrants may be exercised on a cashless basis after twelve (12) months from the date of closing, if there is no effective registration statement covering the shares of Common Stock issuable upon exercise of the Warrant. The Company has granted the investors "piggy-back" registration rights with respect to the shares of common stock underlying the Units and the shares of common stock underlying the Warrants, for a period of twelve (12) months from the date of closing. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

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

On November 30, 2011, we issued 500,000 shares of common stock, par value $0.001 per share, at a purchase price of $0.50 per share pursuant to a subscription agreement. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

On November 30, 2011, we issued 1,018,356 shares of common stock, par value $0.001 per share, upon conversion of the principal and all of the interest due on a certain convertible promissory note issued on September 22, 2011. The Company also issued the holder a warrant to purchase 500,000 shares of common stock at an exercise price of $1.00 per share. The shares and warrants were issued to an "accredited investor" in a transaction that did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4 (2) thereof, as a transaction by an issuer not involving a public offering.

On November 3, 2011, we issued 455,000 shares of common stock, par value $0.001 per share, at a purchase price of $1.00 per share pursuant to subscription agreements entered into on October 31, 2011 and November 1, 2011. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

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

On September 22, 2011, we issued a 10% convertible promissory note with a principal amount of $500,000, due on March 22, 2012 and a warrant to purchase certain securities of the Company in a Target Transaction Financing (defined as "a private placement of the Company's securities yielding gross proceeds to the Company of at least $8,000,000"), pursuant to a Securities Purchase Agreement. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof, as a transaction by an issuer not involving a public offering.

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

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

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

**Item 6. Selected Financial Data.**

Not applicable.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements included elsewhere in this report and the information described under the caption "Risk Factors" and "Special Note Regarding Forward Looking Statements" above.

*Company Overview*

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

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

In December 2011, in accordance with the intent of the parties participating in the reverse merger described below, the Company transferred its 55% ownership in ISR de Mexico, S. R.L. de C. V., a Mexican corporation that was owned by the Company during the period prior to February 22, 2011, in return for and cancellation of 13,948,001 shares of the Company's common stock.

*Reverse Merger*

On June 30, 2011, the Company acquired all of the outstanding shares of BioZone Laboratories, Inc. and its affiliates. BioZone Labs primarily is engaged in the business of developing and manufacturing Over the Counter ("OTC") drug products and cosmetic and beauty products on behalf of third parties. Equalan LLC ("Equalan"), related to BioZone Labs through common stock ownership, markets a line of proprietary skin care products under the brand names of Glyderm ®. Equachem LLC ("Equachem") also related to BioZone Labs through common stock ownership, sells raw materials used in OTC drugs and cosmetic products. We refer to BioZone Labs, Equalan and Equachem as the "BioZone Labs Group". The BioZone Labs Group generated $17.2 and $12.6 million of sales during the years ended December 31, 2012 and 2011, respectively, of which $17.2 million or 94% and $11.6 million or 92%, respectively, were generated by BioZone Labs from its third party contract manufacturing business.

Pursuant to authoritative accounting guidance, we accounted for the purchase of the BioZone Labs Group as a "Reverse Merger", with each of BioZone Labs, Equalan and Equachem, treated as the accounting survivor.

On February 22, 2013 and March 7, 2013, we liquidated Equachem and Equalan, and transferred their activities to BioZone Labs in an effort to reduce selling and administrative expenses.

***Results of Operations***

*Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011:*

*Sales*

Sales for the years ended December 31, 2012 and 2011 were $17,190,720 and $12,605,146 respectively. The increase in revenue of $4,585,574 or 36.4% primarily was attributable to new production on behalf of an internet retailer who became a customer of BioZone Labs in late 2011; increased production on behalf of Matrixx Initiatives, our largest customer; and increased orders from our legacy customers from increased end-user demand.

*Cost of Sales and Gross Profit*

Cost of sales for the years ended December 31, 2012 and 2011 were $9,969,068 and $9,919,568, respectively, resulting in gross profit of $7,221,652 and $2,685,578, respectively. The gross profit percentages for the years ended December 31, 2012 and 2011 were 42% and 21%, respectively.

The increase in gross profit of $4,536,074 primarily was attributable to increased sales offsetting an amount of cost of goods sold that is fixed regardless of the number of units produced; and a write-off of obsolete and unusable inventory in 2011 valued at $1,439,616 as compared to a write-off of inventory in 2012 valued at $405,918. Excluding the charges to inventory, our gross profit margins were 44% and 33% for the years ended December 31, 2012 and 2011, respectively.

*Operating Expenses*

We had total operating expenses of $9,858,213 for the year ended December 31, 2012 as compared to $6,572,578 for the year ended December 31, 2011. The increase in operating expenses of $3,285,635 is due to an increase in general and administrative expenses of $869,292; $548,492 of expenses related to the reverse merger and reflecting the consolidation of Baker Cummins for the full year 2012 rather than a partial year in 2011; and an increase in legal fees of $325,000. These expenses were offset by small decreases in various expense accounts. Selling expenses increased by $96,435 or 14.2% to $774,778 for the year ended December 31, 2012 from $678,343 for the year ended December 31, 2011 due to the large increase in sales. Research and Development expenses increased $319,908, due to the opening of our research facility in Princeton, NJ and the addition of 5 staff members. In September 2012, we terminated research and development activities at this location, including personnel connected with such efforts.

On December 18, 2012, Matrixx Initiatives initiated a voluntary recall of one lot of Zicam ® Extreme Congestion Relief nasal gel that we manufactured on their behalf (the "Product Recall"). Matrixx took this step after we informed Matrixx that we found a small amount of Burkholderia cepacia in a single sample of the product taken from the affected lot. Burkholderia cepacia poses little medical risk to healthy individuals. However, Burkholderia cepacia in a nasal spray could cause upper airway colonization and secondarily lead to respiratory infections in individuals with a compromised immune system or those with chronic lung conditions, such as cystic fibrosis. The organism is resistant to many antibiotics and may be difficult to eradicate in this sensitive population if an infection occurs. To our knowledge, Matrixx has not received any reports of illness.

On January 3, 2013, Matrixx sent BioZone Labs a Notice of Default under the Supply Agreement dated May 8, 2009 by and between BioZone and Zicam, LLC to formally notify BioZone Labs that Matrixx is handling the Product Recall and will require BioZone Labs to reimburse Matrixx for all costs and expenses related to the Product Recall. Preliminary estimates of the damages related to the Product Recall range from $1 million to $3 million.

We recorded a charge of $2,000,000 for the cost of reimbursing Matrixx for the expense of the Product Recall. We have paid Matrixx a total of $579,197, the balance remains due and owing.

*Interest Expense*

We incurred interest expense of $5,481,581 for the year ended December 31, 2012 as compared to $1,242,853 for the year ended December 31, 2011. The increase in interest expense of $4,238,728 primarily is due to an increase of $3,295,896 resulting from recording the excess value of warrants issued with the convertible notes the Company sold in 2012. In addition, $976,319 of the increase was due to the amortization of the debt discount recorded for the warrants issued with the convertible notes sold by the Company in 2012. These increases were partially offset by a decrease in interest paid due to lower interest rates and lower average outstanding balances.

*Change in value of derivative instruments*

We recorded a gain of $153,540 related to the change in the fair market value of our derivative instruments for the year ended December 31, 2012 compared to the period ended December 31, 2011 when we recorded a loss of $281,508 for.

*Net Loss / Income*

As a result of the foregoing, we realized a net loss of $7,964,602 for the year ended December 31, 2012 as compared to a net loss of $5,457,310 for the year ended December 31, 2011, an increase in net loss of $2,507,292.

*Evaluation of Disclosure Controls and Procedures*

We have identified certain material weaknesses relating to our internal controls and procedures. The reason for the ineffectiveness of our disclosure controls and procedures is the result of the lack of formal documentation containing written procedures and controls that must be followed to ensure the filing of timely and accurate reports with the Securities and Exchange Commission and the lack of sufficient accounting staff to provide for segregation of duties and responsibilities with respect to our cash control over the disbursements related thereto. Although neither management nor our independent auditors discovered any significant errors in the preparation of our financial statements, the lack of formal written controls and procedures and the lack of multiple levels of review and segregation of duties could lead to error or fraud and is considered a per se material weakness in internal controls over financial reporting Recently we hired additional staff in our accounting department and are initiating a program to establish formal written controls and procedures.

*Liquidity and Capital Resources*

As of December 31, 2012, our current assets were $2,670,293 as compared to $2,904,436 at December 31, 2011. As of December 31, 2012, our current liabilities were $7,925,513, as compared to $7,278,170 at December 31, 2011. Operating activities used net cash of $1,471,396 for the year ended December 31, 2012, as compared to using net cash of $420,953 for the year ended December 31, 2011.

During the year ended December 31, 2012, investing activities used net cash of $374,336, comprised of cash used for the purchases of property and equipment. During the year ended December 31, 2011, investing activities provided net cash of $10,290, primarily due to the cash acquired in the Aero acquisition.

During the year ended December 31, 2012, cash of $1,491,695 was provided by financing activities, consisting of proceeds from the issuance of convertible notes of $3,750,000, and the sale of common stock of $650,000. This was offset by repayment of convertible notes payable of $2,650,115, payment of deferred financing fees of $36,304, and repayment of debt of $222,001 compared to net cash provided by financing activities of $575,521 during the comparable twelve-month period ended December 31, 2011, which consisted of proceeds from convertible debt of $2,750,000 and proceeds from the sale of common stock of $705,000, offset by repayments of borrowings of note holders, primarily Bank of Marin, of $2,725,904, payment of deferred financing fees of $150,364 and repayment to shareholders of $3,211.

Our net loss for the years ended December 31, 2012 and 2011 was $7,964,602 and $5,457,310 respectively. As of December 31, 2012, we had cash and cash equivalents of $62,296 and negative working capital of $5,255,220.

On March 22, 2013, BioZone Laboratories, Inc. (the “Seller”), a wholly-owned subsidiary of Biozone Pharmaceuticals, Inc., entered into a Factoring and Security Agreement (the “Factoring Agreement”) with Midland American Capital Corporation (“Midland”) pursuant to which Midland will provide up to $1,500,000 of financing, on a discretionary basis, against the Company’s account receivables. Under the Factoring Agreement, Midland has agreed to purchase certain account receivables of the Seller and the Seller has agreed to pay Midland an initial fee of 2.5% of the face amount of an account (subject to certain adjustments) plus 0.833% of the face amount of an account (subject to certain adjustments) for each 10 day period following the first 30 days of financing. In connection with the execution of the Factoring Agreement, the Seller entered into a Purchase Money Rider (the “Purchase Money Rider”) with Midland pursuant to which Midland will provide to the Seller, on a discretionary basis, financing to procure raw materials for the manufacture of Seller’s goods. The financing under the Purchase Money Rider may be made via direct payment to the Company’s suppliers or issuance of letters of credit. The Seller will be required to pay Midland an initial purchase fee of 2.95% of the amount financed plus a purchase money fee of 0.933% of the amount financed for each 10 day period following the first 30 days of financing. In addition to and in connection with the foregoing, Guarantee and Security Agreements, Validity Guarantees and Intercreditor Agreements were executed. The above description of the Factoring Agreement and the agreements executed in connection therewith do not purport to be complete and is qualified in its entirety by reference to forms of such agreements which are filed as exhibits to this Annual Report.

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

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

*Off–Balance Sheet Arrangements*

As of December 31, 2012, we had no material off-balance sheet arrangements other than operating leases.

*Contractual Obligations*

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

*Impact of Inflation*

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

*Properties*

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

BioZone Labs manufactures its products in a 20,000 s.f., cGMP facility owned by 580 Garcia Avenue, LLC, its consolidated VIE and fills and stores its products at a 60,000 sq. ft. rented facility located at 701 Willow Pass Road, Pittsburg, CA. The lease for the Willow Pass Road facility expires on April 30, 2014 and provides for annual rentals of approximately $341,000.

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

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

*Seasonality*

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

**Critical Accounting Policies and Estimates**

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

*Basis of Consolidation*

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

The Company considered the terms of its interest in 580 Garcia and determined that it was a variable interest entity (VIE) in accordance with ACS 810-10-55, and that it should be consolidated with the Company. As of December 31, 2011, amounts relating to 580 Garcia included in the consolidated assets, which are shown in Property and Equipment, and consolidated liabilities, which are reported in long-term debt, total $758,814 and $2,582,818, respectively. The Company rents the manufacturing facility located at 580 Garcia Avenue, Pittsburg CA from 580 Garcia, is the sole tenant and is a guarantor of the mortgage note issued by 580 Garcia to GECC, the lien holder on the property. The Company's maximum exposure to loss, which is based on the Company's guarantee of the mortgage note of 580 Garcia owed to GECC, is $2,582,818, which equals the carrying amount of the liability as of December 31, 2012.

*Revenue Recognition*

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

Revenue from the licensing of intellectual property is recorded when reported to us by the licensee.

*Convertible Instruments*

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

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

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

*Common Stock Purchase Warrants and Other Derivative Financial Instruments*

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

Our derivative instruments were valued using the Black-Scholes option pricing model, using the following assumptions during the year ended December 31, 2012:

| | |
|---|---|
| Estimated dividends | None |
| Expected volatility | 184% |
| Risk-free interest rate | 0.83% |
| Expected term | 3.25 years |

*Research and Development*

Research and development expenditures are charged to operations as incurred.

*Income Taxes*

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

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

**Recent Accounting Pronouncements**

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

Paritz & Company, P.A.
certified public accountants

15 Warren Street, Suite 25
Hackensack, New Jersey 07601
(201) 342-7753
Fax: (201) 342-7598

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Biozone Pharmaceuticals, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the years ended December 31, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biozone Pharmaceuticals, Inc. as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has incurred operating losses for its last two fiscal years, has a working capital deficiency of $5,255,220, and an accumulated deficit of $14,128,079. Management plans regarding these matters are also described in Note 3. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

We were also engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2012 expressed a disclaimer of opinion on the Company's internal control over financial reporting.

/s/ Paritz and Company. P.A.

Hackensack, New Jersey
March 29, 2013

**BIOZONE PHARMACEUTICALS, INC.**
**CONSOLIDATED BALANCE SHEET**

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 62,296 | $ 416,333 |
| Account receivable net of allowance for doubtful accounts $46,119 and $449,524, respectively | 834,998 | 523,039 |
| Inventories | 1,651,087 | 1,819,751 |
| Prepaid expenses and other current assets | 121,912 | 145,313 |
| **Total current assets** | 2,670,293 | 2,904,436 |
| Property and equipment, net | 3,333,919 | 3,342,447 |
| Goodwill | 1,026,984 | 1,026,984 |
| Intangibles, net | 190,894 | 247,450 |
| Deferred financing costs, net | 17,677 | 25,319 |
| | 4,569,474 | 4,642,200 |
| **Total Assets** | $ 7,239,767 | $ 7,546,636 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current liabilities:** | | |
| Account payable | 736,279 | 1,616,673 |
| Accrued expenses and other current liabilities | 3,127,817 | 1,181,852 |
| Accrued interest | 286,382 | 83,548 |
| Notes payable - shareholder | 1,099,715 | 1,099,715 |
| Convertible notes payable, net of debt discount | 1,472,152 | 2,050,000 |
| Deferred income tax | 102,022 | 102,022 |
| Derivative instruments | 919,394 | 883,619 |
| Current portion of long term debt | 181,752 | 260,741 |
| **Total current liabilities** | 7,925,513 | 7,278,170 |
| **Long Term Debt** | 2,894,579 | 3,037,591 |
| **Shareholders' deficiency** | | |
| Common stock, $.001 par value, 100,000,000 shares authorized, 63,142,969 and 55,181,165 shares issued and outstanding at December 31, 2012, and 2011, respectively | 63,143 | 55,181 |
| Additional paid-in capital | 10,484,611 | 3,339,171 |
| Accumulated deficit | (14,128,079) | (6,163,477) |
| **Total shareholders' deficiency** | (3,580,325) | (2,769,125) |
| **Total liabilities and shareholders' deficiency** | $ 7,239,767 | $ 7,546,636 |

See notes to consolidated financial statements.

**BIOZONE PHARMACEUTICALS, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| Sales | $ 17,190,720 | $ 12,605,146 |
| Cost of sales | (9,969,068) | (9,919,568) |
| Gross profit | 7,221,652 | 2,685,578 |
| **Operating Expenses:** | | |
| General and adminstrative expenses | 6,340,344 | 5,471,052 |
| Selling expenses | 774,778 | 678,343 |
| Research and development expenses | 743,091 | 423,183 |
| Recall charges | 2,000,000 | - |
| Total Operating Expenses | 9,858,213 | 6,572,578 |
| Loss from operations | (2,636,561) | (3,887,000) |
| Interest expense | (5,481,581) | (1,242,853) |
| Change in fair market value of derivative liability | 153,540 | (281,508) |
| Equity in loss of unconsolidated subsidiary | - | (42,677) |
| Loss before provision for income taxes | (7,964,602) | (5,454,038) |
| Provision for income taxes | | 3,272 |
| Net loss | $ (7,964,602) | $ (5,457,310) |
| Loss per common share | $ (0.13) | $ (0.11) |
| Basic and diluted weighted average common share outstanding | 62,029,805 | 50,443,025 |

See notes to consolidated financial statements.

**BIOZONE PHARMACEUTICALS INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $ (7,964,602) | $ (5,457,310) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Deferred income taxes | - | 3,272 |
| Bad debt expense | 149,803 | 326,456 |
| Depreciation and amortization | 439,420 | 531,844 |
| Amortization of deferred financing costs | 43,946 | 160,408 |
| Write-off of obsolete inventory | 405,918 | 1,439,616 |
| Change in fair value of derivative liability | (153,540) | 281,508 |
| Stock and warrant based compensation | 120,000 | - |
| Equity in loss of unconsolidated subsidiary | - | 42,677 |
| Non-cash interest expense | 5,181,251 | 758,044 |
| Changes in assets and liabilities: | | |
| Account receivable-trade | (461,762) | 560,353 |
| Inventories | (237,254) | (665,914) |
| Prepaid expenses and other current assets | 23,401 | (102,031) |
| Accounts payable | (880,394) | 652,240 |
| Accrued expenses and other current liabilities | 1,862,417 | 1,047,884 |
| Net cash used in operating activities | (1,471,396) | (420,953) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (374,336) | (575,430) |
| Cash acquired on business combination | | 585,720 |
| Net cash provided by (used in) investing activities | (374,336) | 10,290 |
| Cash flows from financing activities | | |
| Proceeds from convertible debt | 3,750,000 | 2,750,000 |
| Payment of deferred financing costs | (36,304) | (150,364) |
| Repayment of borrowings from noteholders | (2,650,000) | (2,725,904) |
| Proceeds from sale of common stock | 650,000 | 705,000 |
| Repayment of debt | (222,001) | - |
| Payment to shareholder | | (3,211) |
| Net cash provided by financing activities | 1,491,695 | 575,521 |
| Net increase (decrease) in cash and cash equivalents | (354,037) | 164,858 |
| Cash and cash equivalents, beginning of year | 416,333 | 251,475 |
| Cash and cash equivalents, end of year | $ 62,296 | $ 416,333 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 384,084 | $ 539,616 |
| Conversion of convertible note payable and acrued interest to common stock | $ - | $ 509,178 |
| Derivative liability relieved for cashless exercise of warrant for common stock | $ 6,503,402 | $ - |
| Debt discount related to fair value of warrants issued | $ 2,755,274 | $ - |

See notes to consolidated financial statements.

**BIOZONE PHARMACEUTICAL, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY**

| | Common Stock | | Additional paid in capital | Accumulated defecit | Total |
|---|---|---|---|---|---|
| | Number of Shares | Amount | | | |
| Balance as of December 31, 2010 | 21,000,000 | $ 21,000 | $ 95,967 | $ (706,167) | $ (589,200) |
| Effect of reverse merger | 46,029,396 | 46,029 | 1,953,971 | | 2,000,000 |
| Shares issued to consultant | 500,000 | 500 | 1,949,500 | | 1,950,000 |
| Shares issued for liquidated damages | 13,914 | 14 | 6,943 | | 6,957 |
| Proceeds from sale of common stock | 955,000 | 955 | 704,045 | | 705,000 |
| Shares issued to extend maturity date of convertible notes payable | 112,500 | 113 | 56,137 | | 56,250 |
| Shares issued upon conversion of convertible notes payable | 1,018,356 | 1,018 | 508,160 | | 509,178 |
| Shares cancelled to consultant | (500,000) | (500) | (1,949,500) | | (1,950,000) |
| Cancellation of ISR shares | (13,948,000) | (13,948) | 13,948 | | - |
| Net loss for year | | | | (5,457,310) | (5,457,310) |
| Balance at December 31, 2011 | 55,181,166 | 55,181 | 3,339,171 | (6,163,477) | (2,769,125) |
| Proceeds from sale of common stock | 1,755,000 | 1,755 | 648,245 | | 650,000 |
| Shares issued upon cashless exercise of warrants | 12,856,803 | 12,857 | 6,490,545 | | 6,503,402 |
| Cancellation of founder's shares | (6,650,000) | (6,650) | 6,650 | | - |
| Net loss for the year | | | | (7,964,602) | (7,964,602) |
| Balance at December 31, 2012 | 63,142,969 | $ 63,143 | $ 10,484,611 | $ (14,128,079) | $ (3,580,325) |

See notes to consolidated financial statements.

**NOTE 1 – Business**

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

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

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

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

The Company accounted for the acquisition of the BioZone Lab Group as a "reverse acquisition". Accordingly, the Company is considered the legal acquirer and the BioZone Lab Group is considered the accounting acquirer. The current and future financial statements will be those of the historical financial statements of the BioZone Lab Group, and BioZone Pharmaceuticals, Inc. from the date of acquisition. As a result of the June 30, 2011 transaction referred to above, we recorded the fair value of the acquisition at $2,000,000 as further described below. In addition, on September 21, 2011, the Company issued 13,914 shares of common stock to certain shareholders in consideration for the delay in filing the Company's Registration Statement on Form S-1, as required in the Asset Purchase Agreement. These shares were valued at $0.50 per share and the resulting amount was charged to interest expense at the time of issuance.

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

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

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

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

| | Pro-forma results Year ended December 31, 2011 |
|---|---|
| Revenues | $ 12,712,091 |
| Loss before income taxes | (5,515,081) |
| Net loss per share | $ (0.11) |

The Consolidated Statements of Operations for the Year Ended December 31, 2011 and December 31, 2010 contains a revised presentation of Net loss per common share and Basic and diluted weighted average common shares outstanding for each period presented as compared to such amounts included on Form 10-K for the period ended December 31, 2011 filed on April 16, 2012. The following table describes the revisions:

| **Consolidated Statement of Operations** | **Year ended December 31, 2011** |
|---|---|
| **Net loss per common share - originally reported** | (0.11) |
| Basic and diluted weighted average common shares outstanding - originally reported | 50,443,025 |
| **Net loss per common share - adjusted** | (0.12) |
| Basic and diluted weighted average common shares outstanding - adjusted | 44,552,409 |

Also, the Consolidated Statements of Changes in Shareholders' Deficiency through the year ended December 31, 2011 contains a revised presentation of changes in shareholders' deficiency throughout the periods presented as compared to such changes included on Form 10-K for the period ended December 31, 2011 filed on April 16, 2012. The following table describes the revisions:

**As originally reported on form 10-K**

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

**As revised on the accompanying financial statements**

| | Common Stock | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional paid in capital | Shareholder's defecit | Total |
| Balance at December 31, 2010 | 21,000,000 | 21,000 | 95,967 | (706,167) | (589,200) |
| Effect of reverse merger | 46,029,396 | 46,029 | 1,953,971 | | 2,000,000 |
| Shares issued to consultant | 500,000 | 500 | 1,949,500 | | 1,950,000 |
| Shares issued for liquidated damages | 13,914 | 14 | 6,943 | | 6,957 |
| Proceeds from sale of common stock | 955,000 | 955 | 704,045 | | 705,000 |
| Shares issued to extend maturity date of convertible notes payable | 112,500 | 113 | 56,137 | | 56,250 |
| Shares issued upon conversion of convertible note payable | 1,018,356 | 1,018 | 508,160 | | 509,178 |
| Shares cancelled to consultant | (500,000) | (500) | (1,949,500) | | (1,950,000) |
| Cancellation of ISR shares | (13,948,000) | (13,948) | 13,948 | | - |
| Net loss for the year | | | | (5,457,310) | (5,457,310) |
| Balance at December 31, 2011 | 55,181,166 | $ 55,181 | $ 3,339,171 | $ (6,163,477) | $ (2,769,125) |

The revised presentation in the Consolidated Statements of Operations and Consolidated Statements of Changes in Shareholders' Deficiency arises from a revision of the number of shares outstanding as of December 31, 2010, the first date of the Company's financial statements included in the accompanying financial statements. Specifically, we reduced the number of shares outstanding as of December 31, 2009 from 44,749,999 to 21,000,000 to accurately reflect the number of shares issued to the owners of the BioZone Labs Group, the accounting acquiror

in the reverse merger. As a result of this change, we revised the Consolidated Balance Sheets as of December 31, 2011 and 2010 to show as 21,000,000 the number of shares of common stock issued and outstanding at December 31, 2010.

**NOTE 2 - Summary of Significant Accounting Policies**

*Basis of Consolidation*

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

The Company considered the terms of its interest in 580 Garcia and determined that it was a variable interest entity (VIE) in accordance with ACS 810-10-55, and that it should be consolidated with the Company. As of December 31, 2011, amounts relating to 580 Garcia included in the consolidated assets, which are shown in Property and Equipment, and consolidated liabilities, which are reported in long-term debt, total $758,894 and $2,582,818, respectively. The Company rents the manufacturing facility located at 580 Garcia Avenue, Pittsburg CA from 580 Garcia, is the sole tenant and is a guarantor of the mortgage note issued by 580 Garcia to GECC, the lien holder on the property. The Company's maximum exposure to loss, which is based on the Company's guarantee of the mortgage note of 580 Garcia owed to GECC, is $2,582,818, which equals the carrying amount of the liability as of December 31, 2012.

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

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

*Revenue Recognition*

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

*Accounts Receivable and Allowance for Doubtful Accounts Receivable*

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

*Inventories*

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

If the Company identifies excess, obsolete or unsalable items, its inventories are written down to their realizable value in the period in which the impairment is first identified. During the year ended December 31, 2012 we recorded a charge to cost of sales of $405,918 while in the prior year period we charged $1,439,616 relating to the write-down of inventory due to obsolescence. Shipping and handling costs incurred for inventory purchases and product shipments are recorded in cost of sales in the Company's consolidated statements of operations.

*Fair Value Measurements*

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

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

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

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

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

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

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

*Stock-based compensation*

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

*Property and equipment*

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

*Goodwill*

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

*Impairment of long lived assets*

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

*Income taxes*

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

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

*Convertible Instruments*

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

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

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

*Common Stock Purchase Warrants and Other Derivative Financial Instruments*

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

Our derivative instruments consisting of warrants to purchase our common stock were valued using the Black-Scholes option pricing model, using the following assumptions at December 31, 2012:

| | |
|---|---|
| Estimated dividends | None |
| Expected volatility | 184% |
| Risk-free interest rate | 0.83% |
| Expected term | 3.25 years |

*Concentration of Credit Risk*

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

*Research and development*

Research and development expenditures are charged to operations as incurred

*Advertising*

Advertising and marketing expenses are charged to operations as incurred

**NOTE 3 – Going Concern**

These consolidated financial statements are presented on the basis that we will continue as a going concern. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses for its last two fiscal years, has a working capital deficiency of $5,255,220 and an accumulated deficit of $14,128,079 as of December 31, 2012. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company is implementing a growth strategy for our contract manufacturing business is to increase sales by establishing a dedicated sales team with industry experience who will leverage our expertise in product development and formulation to attract new contract manufacturing customers. Our growth strategy for our proprietary brand business is to increase our promotional efforts through direct mail, internet and participation at trade shows. The Company is also working to reduce selling and administrative expenses as shown by our liquidation of two of our subsidiary companies and folding their operations into Biozone Labs group. The Company has secured a financing agreement to assist with its cash needs. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**NOTE 4 – Property and Equipment**

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

| Fixed Asset | Useful Life | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Vehicles | 5 years | 300,370 | 300,370 |
| Furniture and Fixtures | 10 years | 64,539 | 60,936 |
| Computers | 5 years | 234,123 | 191,206 |
| Manufacturing equipment | 10 years | 4,062,593 | 3,967,302 |
| Lab equipment | 10 years | 973,772 | 821,639 |
| Building improvements | 18 years (remainder of lease) | 1,676,418 | 1,608,055 |
| Building | 40 years | 571,141 | 571,141 |
| Land | Not depreciated | 380,000 | 380,000 |
| | | 8,262,956 | 7,900,649 |
| Accumulated depreciation | | (4,929,037) | (4,558,202) |
| Net | | 3,333,919 | 3,342,447 |

**NOTE 5 – Equity Method Investments**

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

| | 2012 | 2011 |
|---|---|---|
| Balance sheet | | |
| Current assets | 3,825 | 110,093 |
| Current Liabilities | 301,864 | 131,672 |
| | | |
| Statement of operations | | |
| Revenues | 40,002 | 315,346 |
| Net income (loss) | (272,935) | (102,047 |

In 2011, when the Company's share of losses equaled the carrying value of its investment, the equity method of accounting was suspended, and no additional losses were charged to operations. The Company's unrecorded share of losses for 2012 totaled $122,821.

**NOTE 6 – Convertible Notes Payable**

*The "March 2011 Notes"*

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

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

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

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

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

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

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

*The "September 2011 Note"*

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

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

*The "February 2012 Notes"*

On February 24, 2012, we entered into a Securities Purchase Agreement with OPKO Health Inc. pursuant to which we sold a 10% secured convertible promissory note in the aggregate principal amount of $1,700,000 due two years from the date of issuance and issued warrants to purchase 8,500,000 shares of the our common stock, at an exercise price of $0.40 per share, for gross proceeds of $1,700,000.

On February 28, 2012 and February 29, 2012, we entered in a Securities Purchase Agreement with two additional buyers pursuant to which we sold an additional $600,000 aggregate principal amount of notes and issued warrants to purchase an additional 3,000,000 shares of our common stock, at an exercise price of $0.40 per share, for gross proceeds of $600,000, on the same terms as the notes and warrants issued to OPKO as described above.

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

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

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

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

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

We determined that, according to ASC 470120-30, a beneficial conversion feature existed based on the intrinsic value of the conversion feature. Due to the fact that the carrying amount of the convertible notes has been reduced to zero, based on the discount allocated from the value of the warrants referred to above, that no beneficial conversion feature is to be recorded. ASC 470-20-30-8 states that if the intrinsic value of the beneficial conversion feature is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature shall be limited to the amount of the proceeds allocated to the convertible instrument.

*The "March 2012 Purchase Order Note"*

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

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

The Company has not recorded a BCF on the March 201 2 Purchase Order Notes due to the effective conversion price being greater than the fair value of the Company's stock at the issuance date.

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

As of December 31, 2012, the Company repaid $600,000 of the Purchase Order Note.

*The "April 2012 Working Capital Note"*

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

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

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

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

*The "June 2012 Working Capital Notes"*

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

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

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

*The "June 2012 Convertible Notes"*

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

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

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

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

We determined that, according to ASC 470120-30, a beneficial conversion feature existed based on the intrinsic value of the conversion feature. Due to the fact that the carrying amount of the convertible notes has been reduced to zero, based on the discount allocated from the value of the warrants referred to above, that no beneficial conversion feature is to be recorded. ASC 470-20-30-8 states that if the intrinsic value of the beneficial conversion feature is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature shall be limited to the amount of the proceeds allocated to the convertible instrument.

The following table sets forth a summary of all the outstanding convertible promissory notes at December 31, 2012:

| | |
|---|---|
| Convertible promissory notes issued | 6,505,274 |
| Notes repaid | (2,850,000) |
| Less amounts converted to common stock | (500,000) |
| | 3,155,274 |
| Less debt discount | 1,683,122 |
| Balance December 31, 2012 | 1,472,152 |

**NOTE 7 – Notes Payable – Shareholder**

This amount is due to our former Executive Vice President for advances made to the Company, bears interest at a weighted average rate of approximately 10% and is due on demand. The Company is in dispute with the shareholder as to the balance due but has recorded the full amount claimed by the shareholder. We recorded interest expense of $0 and $42,765 to the shareholder for the years ended December 31, 2012 and 2011 respectively

**NOTE 8 – Long Term Debt**

| | Year ended December 31, | |
|---|---|---|
| **Notes payable of Biozone Labs** | 2012 | 2011 |
| Capitalized lease obligations bearing interest at rates ranging from 8.6% to 16.3%, payable in monthly installments of $168 to $1,589, inclusive of interest | $ 192,323 | $ 307,255 |
| City of Pittsburg Redevelopment Agency, 3% interest, payable in monthly installments of $3,640 inclusive of interest | 221,190 | 257,639 |
| Other | 80,000 | 90,000 |
| | | |
| **Notes payable of 580 Garcia Properties** | | |
| Mortgage payable of 580 Garcia collateralized by the land and building payable in monthly installments of $20,794, inclusive of interest at 7.24% per annum | 2,582,818 | 2,643,438 |
| | $ 3,076,331 | $ 3,298,332 |
| Less: current portion | 181,752 | 260,741 |
| | 2,894,579 | 3,037,591 |

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

| | |
|---|---|
| 12/31/2013 | 112,435 |
| 12/31/2014 | 118,446 |
| 12/31/2015 | 124,856 |
| 12/31/2016 | 111,151 |
| 12/31/2017 | 96,969 |
| Thereafter | 2,512,474 |

Future minimum annual lease payments for capital leases in effect as of December 31, 2012 are as follows:

| | |
|---|---|
| 12/31/2013 | 69,316 |
| 12/31/2014 | 58,214 |
| 12/31/2015 | 35,371 |
| 12/31/2016 | 29,421 |
| 12/31/2017 | - |
| Thereafter | - |

**NOTE 9 – Warrants**

*The "March 2011 Warrants"*

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

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

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

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

*The "September 2011 Warrants"*

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

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

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

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

*The "January 2012 Warrants"*

On January 11, 2012 and January 25, 2012, we sold an aggregate of 1,300,000 units (the "Units") to accredited investors. Each Unit was sold for a purchase price of $0.50 per Unit and consisted of: (i) one share of the Company's common stock and (ii) a four-year warrant to purchase 650,000 shares of common stock at an exercise price of $1.00 per share, subject to adjustment upon the occurrence of certain events (the "January 2012 Warrants"). The January 2012 Warrants may be exercised on a cashless basis after twelve (12) months from the date of closing if there is no effective registration statement covering the resale of the underlying shares of common stock issuable upon exercise of the warrant. The January 2012 warrants provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the warrants upon request of the holders in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the January 2012 Warrants as liabilities.

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

*The "February 2012 Warrants"*

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

The February 2012 Warrants expire ten years from date of issuance and have an exercise price of $0.40 per common share. The February 2012 Warrants contain a "cashless exercise" feature and provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the February 2011 Warrants upon request of the holder in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the February 2012 Warrants as liabilities. The liability for the warrants, measured at fair value, based on a Black-Scholes option pricing model, has been offset by a reduction in the carrying value of the related February 2012 Notes.

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

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

*The Advisory and Consulting Warrants*

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

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

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

*"The June 2012 Warrants"*

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

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

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

**NOTE 10 – Income Taxes**

The reconciliation of income tax benefit at the U.S. statutory rate of 34% for the years ended December 31, 2012 and 2011 to the Company's effective tax rate is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| U.S. federal statutory rate | -34.0% | -34.0% |
| State income tax, net of federal benefit | -6.0% | -6.0% |
| Permanent differences | 67.0% | 16.0% |
| Change in valuation allowance | -27.0% | 23.4% |
| Income tax provision (benefit) | 0.0% | -0.6% |

The benefit for income tax is summarized as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Federal: | | |
| Current | $ - | $ - |
| Deferred | (894,135) | (1,693,454) |
| State and local: | | |
| Current | - | |
| Deferred | (157,789) | (298,845) |
| Change in valuation allowance | 1,051,924 | 1,995,571 |
| Income tax provision (benefit) | $ 0 | $ 3,272 |

The tax effects of temporary differences that give rise to the Company's net deferred tax liability as of December 31, 2012 and 2011 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Deferred tax assets | | |
| Net operating losses | $ 2,172,000 | $ 1,003,188 |
| Allowance for doubtful accounts | 18,447 | 179,810 |
| | 2,190,447 | 1,182,998 |
| Less: valuation allowance | (2,190,447) | (1,182,998) |
| | | - |
| Deferred tax liability | | |
| Depreciation | 102,022 | 102,022 |
| Total deferred tax liability | $ 102,022 | $ 102,022 |

As of December 31, 2012 and 2011, the Company had approximately $5,400,000 and $2,500,000 of federal and state net operating loss carryovers ("NOLs") which begin to expire in 2028. Utilization of the NOLs may be subject to limitation under the Internal Revenue Code Section 382 should there be a greater than 50% ownership change as determined under regulations. The change in ownership occurred of the Company that in June 2011 resulted in an annual limitation on the usage of the Company's pre-acquisition net operating loss carryforwards.

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

The Company files U.S. federal and states of California tax returns that are subject to audit by tax authorities beginning with the year ended December 31, 2008.The Company's policy is to classify assessments, if any, for tax and related interest and penalties as tax expense.

BioZone Labs is currently under examination for the year ended December 31, 2009, and is still open to examination for all periods subsequent to this date. The companies included in the consolidated financial statements are open for examination for the years ended December 31, 2009, 2010, and 2011.

**NOTE 11 – Concentrations**

Approximately, 28% and 21% of the Company's sales for the year ended December 31, 2012 were made to two customers. These customers accounted for 27% and 9% of the Company's sales for the year ended December 31, 2011. Also, one customer accounted for 50% of our consolidated accounts receivable as of December 31, 2012, none of which was more than 30 days past due. No other customer accounts for more than 10% of our outstanding consolidated accounts receivable.

**NOTE 12 – Contingencies**

*Employment Agreements*

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

On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President for cause. Pursuant to his employment agreement, Mr. Fisher was entitled to accrued salary through the date of termination. In addition, Mr. Fisher claimed pay for accrued vacation. We have paid Mr. Fisher $56,000 in unpaid salary and vacation pay and $23,000 in penalties of which $5,769 remains outstanding and is due on April 15, 2013. Mr. Fisher has demanded delivery to him of 6,650,000 shares of the Company's common stock.

*Leases*

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

| | | |
|---|---|---|
| 2013 | $ | 456,123 |
| 2014 | | 442,623 |
| 2015 | | 211,022 |
| 2016 | | 63,481 |
| | $ | 1,159,749 |

Total rent and related expenses under operating leases were $576,180 and $411,551 for the years ended December 31, 2012 and 2011 respectively. Operating lease obligations after 2011 relate primarily to office facilities

Litigation

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

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

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

An action was commenced on March 19, 2012 against BioZone Labs, the Company and a former officer and director of the Company, Daniel Fisher in the United States District Court for the District of Maryland. The plaintiff alleges breach of contract and other commercial wrongdoing and seeks damages in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. The Company refutes the allegations and intends to vigorously defend against this action. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because, among other reasons, the complaint does not set forth a monetary demand.

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

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

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

The Company disputes Fisher's allegations, intends to vigorously defend them and has filed an action against Fisher in New York described below. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because it is at a very early stage.

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

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

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

**NOTE 13. Capital Deficiency**

On May 16, 2011, the Company issued 7,724,000 shares of our restricted common stock to Aero and assumed Aero's liabilities in connection with the acquisition and agreed to issue additional shares on the basis of one share for (A) each dollar of current assets transferred to the Company at the closing, as set forth on the closing date balance sheet of Aero, to be delivered following the closing, and (B) each dollar of costs incurred for liquidation, certain income taxes and perfected or settled dissenters' rights of appraisal, up to a maximum of an additional 7,500,000 shares. Pursuant to the foregoing, the Company issued an additional 607,396 shares.

On September 21, 2011, we issued 13,914 shares of common stock to Aero Pharmaceuticals, Inc., due to the delay in filing the Company's Registration Statement on Form S-1, as required by the Asset Purchase Agreement between the Company and Aero Pharmaceuticals, Inc.

On October 28, 2011, we issued an aggregate of 112,500 shares of our common stock to the holders of the Notes issued in March 2011, in consideration for the extension of the maturity dates of such Notes.

On November 3, 2011, we issued 455,000 shares of common stock, par value $0.001 per share, at a purchase price of $1.00 per share pursuant to subscription agreements entered into on October 31, 2011 and November 1, 2011.

On November 30, 2011, we issued 500,000 shares of common stock, par value $0.001 per share, at a purchase price of $0.50 per share pursuant to a subscription agreement.

On November 30, 2011, we issued 1,018,356 shares of common stock, par value $0.001 per share, upon conversion of the principal and all of the interest due on a certain convertible promissory note issued on September 22, 2011. The Company also issued the holder a warrant to purchase 500,000 shares of common stock at an exercise price of $1.00 per share.

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

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

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

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

On July3, 2012, the Company issued 7,650,000 shares of common stock upon the cashless exercise of warrants to purchase 8,500,000 shares.

On September 28, 2012 the Company cancelled 6,650,000 shares of common stock which were previously issued to Dr. Nian Wu in connection with the acquisition of certain patent rights for Biozone Laboratories, Inc. As consideration for the cancellation, Mr. Wu agreed to the cancellation of a license agreement between Mr. Wu and the Company.

**NOTE 14 - Subsequent Events**

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

On February 22, 2013 and March 7, 2013, we liquidated Equachem and Equalan, respectively, and transferred their activities to BioZone Labs in an effort to reduce selling and administrative expenses.

On March 22, 2013, BioZone Laboratories, Inc., a wholly-owned subsidiary of Biozone Pharmaceuticals, Inc. entered into a Factoring and Security Agreement with Midland American Capital Corporation (“Midland”) pursuant to which Midland will provide up to $1,500,000 of financing, on a discretionary basis, against the Company’s account receivables.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

***Controls and Procedures***

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2012, the fiscal year end covered by this report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Our management does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the fiscal year ending December 31, 2012, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based upon our evaluation regarding the fiscal year ending December 31, 2012, our management, including Mr. Elliot Maza, our Chief Executive Officer and Chief Financial Officer, has concluded that its disclosure controls and procedures were not effective due to insufficient personnel to properly prepare, implement and monitor adequate controls and procedures.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2012, management identified numerous material weaknesses as described below:

*Financial Reporting Process*
Description of Material Weakness as of December 31, 2012

The Company did not maintain an effective financial reporting process to prepare financial statements in accordance with U.S. GAAP. Specifically, our process lacked timely and complete financial statement reviews, appropriate account closing procedures, and appropriate reconciliation processes. Also, the Company lacked documented procedures included documentation related to testing of processes, data validation procedures from the systems into the general ledger, testing of systems, validation of results, disclosure review, and other analytics. Furthermore, the Company lacked sufficient personnel to properly segregate duties.

*Information Technology Systems*
Description of Material Weakness as of December 31, 2012

The Company did not maintain effective internal control over financial reporting related to certain information technology applications and general computer controls that are considered to have an impact on financial reporting and that resulted in a more than reasonable possibility that material misstatements in our financial statements would not be prevented or detected.

Specifically, we lacked effective controls in the following areas:

*Access Control* — The Company did not maintain effectively designed controls to prevent unauthorized access to certain programs and data, and provide for periodic review and monitoring of access including reviews of security logs and analysis of segregation of duties conflicts.

*Change Management* — The Company did not maintain effectively designed controls to ensure that all information technology program and data changes were authorized, developer access to the production environment was limited, and that all program and data changes were adequately tested for accuracy and appropriate implementation.

*Spreadsheets* — The Company did not maintain effectively designed controls to ensure that critical spreadsheets were identified, access to these spreadsheets was restricted to appropriate personnel, changes to data or formulas were authorized and appropriate, or that the spreadsheets were adequately reviewed by someone other than the preparer.

Therefore, our internal controls over financial reporting were not effective as of December 31, 2012.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness; yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the fourth quarter of the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We were engaged to audited Biozone Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2012 , based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Biozone Pharmaceuticals, Inc's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. Because of the matters discussed below we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company does not have documented procedures related to internal control over financial reporting. The Company is in the process of developing and documenting its internal control over financial reporting system, but as of the year ended December 31, 2012 we were not able to properly test controls and render an opinion thereon.

Because of the significance of the matter described in the preceding paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the Company's internal control over financial reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Biozone Pharmaceuticals, Inc, Inc. and subsidiaries as of December 31, 2012 and 2011 , and the related Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for each of the years then ended, and our report dated March 29, 2013 expressed an unqualified opinion which included an explanatory paragraph which raises substantial doubt about the Company's ability to continue as a going concern, on those consolidated financial statements.

/s/ Paritz & Company, P.A.

Hackensack, New Jersey
March 29, 2013

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

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

**EXECUTIVE OFFICERS AND DIRECTORS**

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

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

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

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

*Christian Oertle, Chief Strategy Officer.* Mr. Oertle serves as our Chief Strategy Officer. Mr. Oertle served as our Chief Operating Officer from June 30, 2011 until February 11, 2013. From May 2003 until the present time, Mr. Oertle has served as the General Manager of BioZone Laboratories, Inc. From May 2000 to May 2003, Mr. Oertle served as the Director of Product Research and Development for BioZone Laboratories, Inc. Prior to May 2000 Mr. Oertle worked as a formulation chemist at BioZone Laboratories, Inc; Bertek Pharmaceuticals, a division of Mylan Laboratories (formerly Penederm Incorporated); and Alza Corporation. Mr. Oertle holds a Bachelors of Science Degree in Chemistry from University of California at Davis.

**Family Relationships**

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

**Employment Agreements**

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

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

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

On June 30, 2011, we entered into an employment agreement with Daniel Fisher, formerly Executive Vice President and Director of the Company, pursuant to which Mr. Fisher was to serve as our Executive Vice President for a period of three years in consideration for an annual salary of $200,000 and would be eligible to participate in the Company's long term incentive compensation programs and be entitled to an annual bonus if the Company met or exceeded criteria adopted by the Board, subject to certain claw back rights. Mr. Fisher's employment agreement had the same termination and severance provisions as Dr. Keller's agreement and Mr. Oertle's agreement. On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President for cause. Pursuant to his employment agreement, Mr. Fisher was entitled to accrued salary through the date of termination. In addition, Mr. Fisher claimed pay for accrued vacation. We have paid Mr. Fisher $56,000 in unpaid salary and vacation pay and $23,000 in penalties of which $5,769 remains outstanding and is due on April 15, 2013 . Mr. Fisher has demanded approximately $56,000 in unpaid salary and vacation pay and delivery to him of 6,650,000 shares of the Company's common stock.

**Involvement in Certain Legal Proceedings**

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

**Directors' and Officers' Liability Insurance**

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

**Board Independence**

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

**Meetings and Committees of the Board of Directors**

Our Board of Directors held one formal meeting during the fiscal year ended December 31, 2011 and no formal meetings during the fiscal year ended December 31, 2012.

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

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

**Board Leadership Structure and Role in Risk Oversight**

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

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

**Code of Ethics**

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

**Board Diversity**

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our Board members as well as a particular nominee's contributions to that mix. Although there are many other factors, the Board seeks individuals with experience on public company boards as well as experience with advertising, marketing, legal and accounting skills.

**Board Assessment of Risk**

Our risk management function is overseen by our Board. Our management keeps our Board apprised of material risks and provides our directors access to all information necessary for them to understand and evaluate how these risks interrelate, how they affect the Company, and how management addresses those risks. Mr. Elliot Maza, a director and our Chief Executive Officer and Chief Financial Officer works closely together with the Board once material risks are identified on how to best address such risk. If the identified risk poses an actual or potential conflict with management, our independent directors may conduct the assessment. The Board focuses on these key risks and interfaces with management on seeking solutions.

**Item 11. Executive Compensation.**

**Summary Compensation Table**

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

| Name and Principal Position | Year Ended | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | All Other Compensation ($) (1) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| Elliot Maza (2) | 2011 | 38,462 | 250,000 | 0 | 0 | 0 | 0 | 288,462 |
| | 2012 | 250,000 | 300,000 | | | | 23,694 | 573,694 |
| Brian Keller (3) | 2011 | 100,000 | | | | | 35,712 | 135,712 |
| | 2012 | 133,000 | 43,113 | | | | 22,848 | 198,961 |
| Daniel Fisher (4) | 2011 | 112,000 | 0 | 0 | 0 | 0 | 44,702 | 156,702 |
| | 2012 | 60,667 | | | | | 1,754 | 62,421 |
| Christian Oertle (6) | 2011 | 100,000 | 0 | 0 | 0 | 0 | 4,223 | 104,223 |
| | 2012 | 100,000 | 5,000 | | | | | |
| Roberto Prego-Novo (7) | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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

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

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

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

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

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

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

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

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

**Outstanding Equity Awards at Fiscal Year-End**

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

**Director Compensation**

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

**Stock Incentive Plan**

As of December 31, 2012, the Company had not adopted a stock incentive plan.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following tables set forth certain information as of March 29, 2013 regarding the beneficial ownership of our common stock, by (i) each person or entity who, to our knowledge, owns more than 5% of our common stock; (ii) our executive officers; (iii) each director; and (iv) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power and that person's address is c/o BioZone Pharmaceuticals, Inc., 550 Sylvan Avenue, Suite 101, Englewood Cliffs, NJ 07632. Shares of common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of March 29 , 2013, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the stockholder holding such options, warrants or other rights, but are not deemed outstanding for computing the percentage of any other stockholder.

| Name of Beneficial Owner | Number of Shares Beneficially Owned | Percentage Beneficially Owned (1) |
|---|---|---|
| 5% Owners: | | |
| OPKO Health, Inc.<br>4400 Biscayne Boulevard<br>Miami, Florida 33137 | 7,650,000(2) | 12.1% |
| Daniel Fisher<br>36 Marlee Road<br>Pleasant Hill, CA 94523 | 6,650,000 | 10.5% |
| Frost Gamma Investments Trust (3)<br>4400 Biscayne Boulevard<br>Miami, Florida 33137 | 5,260,681(4) | 8.3% |
| Frost Group LLC<br>4400 Biscayne Boulevard<br>Miami, Florida 33137 | 4,871,133 | 7.7% |
| Michael Brauser<br>3700 NE 27th Ave.<br>Lighthouse Point, Florida 33064 | 4,729,377(5) | 7.5% |
| Barry Honig<br>4400 Biscayne Boulevard, Miami, FL 33137 | 3,952,249(6) | 6.3% |
| Executive Officers and Directors | | |
| Brian Keller | 3,587,500 | 5.7% |
| Christian Oertle | 525,000 | 0.8% |
| Elliot Maza | 3,587,500 | 5.7% |
| Roberto Prego-Novo | 2,939,467(7) | 4.7% |
| All executive officers and directors as a group (4 persons) | 10,639,467 | 16.9% |

1) Based on 63,142,696 shares of our common stock issued and outstanding as of March 29 , 2013.

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

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

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

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

6) Excludes 3,166,667 shares of common stock underlying a promissory notes issued to Barry Honig. The notes can be converted at $0.20 per share and contains a blocker provision providing that such note can only converted such that where the holder would beneficially own a maximum of 4.99% of our outstanding common stock.

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

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

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

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

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

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

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

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

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

As part of our regular business operations, BioZone Labs purchases raw material ingredients from Equachem and sells finished products to Equalan and Baker Cummins. The financial statement impact of these intercompany sales and purchases is eliminated in consolidation. Purchases by BioZone Labs from Equachem were approximately $233,000 and $127,000 for the years ended December 31, 2012 and 2011, respectively. Sales by BioZone Labs to Equalan were approximately $118,000 and $163,000 for the years ended December 31, 2012 and 2011, respectively. Sales by BioZone Labs to Baker Cummins were approximately $117,000 and $0 for the years ended December 31, 2012 and 2011, respectively.

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

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

Daniel Fisher, our former Executive Vice President and Director, advanced funds to the Company for working capital purposes in the aggregate amount of approximately $1,099,715. The advances bear interest at a weighted average rate of approximately 10% and are due on demand. The Company is in dispute with Mr. Fisher as to the amount of the balance due but has recorded as a liability the full amount claimed by him.

**Item 14. Principal Accountant Fees and Services.**

**Audit Fees**

The aggregate fees billed by our principal accountant for the audit of our annual financial statements, review of financial statements included in the quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the years ended December 31, 2012 and 2011 was $109,000 and $90,000, respectively.

**Audit-Related Fees**

The aggregate fees billed by our principal accountant for assurance and advisory services that were related to the performance of the audit or review of our financial statements for the years ended December 31, 2012 and 2011 was $0 and $25,000, respectively.

**Tax Fees**

The aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended December 31, 2012 and 2011 was $8,500 and $8,000 respectively.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

We do not currently have an Audit Committee. The policy of our Board of Directors, which acts as our Audit Committee, is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to our Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

## PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

| | |
|---|---|
| 3.1 | Articles of Incorporation (1) |
| 3.2 | Certificate of Amendment to Articles of Incorporation (1) |
| 3.3 | Certificate of Amendment to Articles of Incorporation (2) |
| 3.4 | Bylaws (1) |
| 10.1 | Asset Purchase Agreement, dated as of May 16, 2011, by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc.(4) |
| 10.2 | Assignment and Assumption Agreement, dated May 16, 2011, by and among the Company, Baker Cummins Corp. and Aero Pharmaceuticals, Inc. (4) |
| 10.3 | Bill of Sale, dated as of May 16, 2011, made and delivered by Aero Pharmaceuticals, Inc., to Baker Cummins Corp.(4) |
| 10.4 | Form of Securities Purchase Agreement, dated as of February 28, 2011. (17) |
| 10.5 | Form of Secured Convertible Promissory Note (3) |
| 10.6 | Form of Warrant (3) |
| 10.7 | Form of Registration Rights Agreement (3) |
| 10.8 | Pledge and Security Agreement (3) |
| 10.9 | Form of Non-Recourse Principal Stockholder Stock Pledge Agreement (3) |
| 10.10 | Director and Officer Indemnification Agreement (3) |
| 10.11 | Amendment No.1 to Asset Purchase Agreement dated as of April 25, 2011 by and between Aero Pharmaceuticals, Inc. and Teva Respiratory, LLC(4) |
| 10.12 | Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Equalan LLC) (5) |
| 10.13 | Form of Stock Purchase Agreement dated June 30, 2011 (BioZone Laboratories Inc.) (5) |
| 10.14 | Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Equachem LLC) (5) |
| 10.15 | Form of LLC Membership Interest Purchase Agreement dated June 30, 2011 (Betazone LLC) (5) |
| 10.16 | Form of Lockup Agreement (5) |
| 10.17 | Stock Option Agreement, dated June 30, 2011, between Brian Keller and Opko Health, Inc. (5) |
| 10.18 | Stock Option Agreement, dated June 30, 2011, between Daniel Fisher and Opko Health, Inc. (5) |
| 10.19 | Employment Agreement, dated June, 2011, between the Company and Brian Keller (5) |
| 10.20 | Employment Agreement, dated June 30, 2011, between the Company and Daniel Fisher (5) |
| 10.21 | Employment Agreement, dated June 30, 2011, between the Company and Christian Oertle (5) |
| 10.22 | License Agreement, dated November 7, 2006, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5) |
| 10.23 | Amendment No. 1 to License Agreement, dated April 4, 2011, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5) |
| 10.24 | Amendment No. 2 to License Agreement, dated June 29, 2011, between BioZone Laboratories Inc. and BetaZone Laboratories LLC (5) |

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|---|---|
| 10.25 | Form of Securities Purchase Agreement (6) |
| 10.26 | Form of Convertible Promissory Note (6) |
| 10.27 | Form of Warrant (6) |
| 10.28 | Form of Registration Rights (6) |
| 10.29 | Form of Note Extension Agreement (7) |
| 10.30 | Form of Subscription Agreement (8) |
| 10.31 | Form of Subscription Agreement (9) |
| 10.32 | Form of Subscription Agreement (10) |
| 10.33 | Form of Warrant (10) |
| 10.34 | Form of Subscription Agreement (11) |
| 10.35 | Form of Warrant (11) |
| 10.36 | Form of Security and Stock Pledge Agreement (11) |
| 10.37 | Form of Note (12) |
| 10.38 | Form of Note (13) |
| 10.39 | Stock Purchase Agreement, dated December 29, 2011, by and among the Company, Global Property Corp. and ISR Investments LLC, Eduardo Biancardi and Timothy Neely, (14) |
| 10.40 | Qusome Patent Assignment from Brian Charles Keller et al. to the Company, dated December 19, 2006 (14) |
| 10.41 | License Agreement, dated February 13, 2012, between the Company and Nian Wu, (14) |
| 10.42 | Assignment of Patent Rights, dated February 12, 2012, between the Company and Nian Wu and Brian Charles Keller(14) |
| 10.43 | Lease, dated March 1, 2004, between the Company and 580 Garcia Properties LLC (14) |
| 10.44 | Distribution Agreement, dated February 24, 2012, between the Company and OPKO Pharmaceuticals, LLC (14) |
| 10.45 | Limited License Agreement, dated February 24, 2012, between the BioZone Laboratories, Inc., Equachem, LLC, the Company and OPKO Pharmaceuticals, LLC (14) |
| 10.46** | Supply Agreement (redacted)(18) |
| 10.47 | Form of LLC Membership Interest Purchase Agreement with exhibits dated June, 2011 (Equalan LLC) (14) |
| 10.48 | Form of Stock Purchase Agreement (BioZone Laboratories Inc.) with exhibits dated June, 2011 (14) |
| 10.49 | Form of LLC Membership Interest Purchase Agreement (Equachem LLC) with exhibits dated June, 2011 (14) |
| 10.50 | Form of LLC Membership Interest Purchase Agreement (Betazone LLC) with exhibits dated June, 2011 (14) |
| 10.51 | Promissory Note issued to Daniel Fisher dated September 10, 2001 (14) |
| 10.52 | Promissory Note issued to Daniel Fisher dated September 1, 2002 (14) |
| 10.53 | Promissory Note issued to Daniel and Sharon Fisher dated September 30, 2005 (14) |
| 10.54 | Promissory Note issued to Daniel Fisher dated December 31, 2008 (14) |
| 10.55 | Promissory Note issued to Daniel and Sharon Fisher dated January 7, 2010 (14) |
| 10.56 | Promissory Note issued to Daniel and Sharon Fisher dated April 8, 2010 (14) |
| 10.57 | Promissory Note issued to Daniel and Sharon Fisher dated May 19, 2010 (14) |

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|---|---|
| 10.58 | Form of Purchase Order (14) |
| 10.59 | Amendment No. 2 to Betazone License Agreement, dated June, 2011 between BioZone Laboratories, Inc. and BetaZone Laboratories, LLC, (14) |
| 10.60 | Promissory Note issued to General Electric Capital Corporation, dated August 23, 2007, (14) |
| 10.61 | Form of Promissory Note (15) |
| 10.62 | Form of Warrant (15) |
| 10.63 | Separation and Release Agreement between the Company and Nian Wu, dated September, 2012. (16) |
| 10.64 | License Agreement between the Company and Nian Wu, dated September 20, 2012. (16) |
| 10.65 | Lease Agreement, dated May 22, 2006, between BioZone Laboratories, Inc. and Empire Business Park . (17) |
| 10.66* | Factoring and Security Agreement, dated March 22, 2013 |
| 10.67* | Purchase Money Rider, dated March 22, 2013 |
| 10.68* | Form of Guaranty and Security Agreement, dated March 22, 2013 |
| 10.69* | Form of Validity Guarantee, dated March 22, 2013 |
| 10.70* | Form of Intercreditor Agreement, dated March 22, 2013 |
| 21.1 | List of Subsidiaries (4) |
| 31.1* | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification pursuant to 18 U.S.C. Section 1350 |

* Filed herewith.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(17) Incorporated by reference to the Company's Registration Statement on Form S-1/A, filed with the SEC on September 28, 2012

(18) Incorporated by reference to the Company's Registration Statement on Form S-1/A, filed with the SEC on January 31, 2013

| | |
|---|---|
| **101.INS**** | **XBRL Instance** |
| **101.SCH**** | **XBRL Taxonomy Extension Schema** |
| **101.CAL**** | **XBRL Taxonomy Extension Calculation** |
| **101.DEF**** | **XBRL Taxonomy Extension Definition** |
| **101.LAB**** | **XBRL Taxonomy Extension Labels** |
| **101.PRE**** | **XBRL Taxonomy Extension Presentation** |

**** **In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K for the year ended December 31, 2012 shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.**

**SIGNATURES**

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

**BIOZONE PHARMECEUTICALS, INC.**
(Registrant)

April 1, 2013

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

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

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Elliot Maza<br>Elliot Maza | Chief Executive Officer and Chief Financial Officer and Director | April 1, 2013 |
| /s/ Roberto Prego-Novo<br>Roberto Prego-Novo | Chairman of the Board of Directors | April 1, 2013 |
| /s/ Brian Keller<br>Brian Keller | President, Chief Scientific Officer and Director | April 1, 2013 |

# FACTORING AND SECURITY AGREEMENT

THIS FACTORING AND SECURITY AGREEMENT is made as of March 22, 2013 by and between **BioZone Laboratories, Inc.,** a California corporation ("Seller") and **Midland American Capital Corporation,** a Nevada corporation ("Purchaser").

1. **Definitions and Index to Definitions** . The following terms used herein shall have the following meaning. All capitalized terms not herein defined shall have the meaning set forth in the UCC:

1.1. **"Acceptable Forums" –** See Section 29.1. hereof.

1.2. " **Active Account Debtor** " – An Account Debtor of Seller which owes a Purchased Account to Purchaser.

1.3. " **Advance Rate** " – 80%.

1.4. " **Avoidance Claim** " **–** Any claim that any payment received by Purchaser is avoidable under the Bankruptcy Code or any other debtor relief statute.

1.5. " **Base Fees** " – The Initial Fee and the Factoring Fee.

1.6. " **Chosen State** – Nevada.

1.7. " **Clearance Days** " – One business days for checks drawn on banks located within the Chosen State and for electronic funds transfers, and three business days for all other payments.

1.8. " **Closed** " – A Purchased Account is closed upon receipt of full payment by Purchaser from a Payor or from the Seller (including its being charged to the Reserve Account).

1.9. " **Collateral"-** All Seller's now owned and hereafter acquired Accounts, Chattel Paper, Inventory, Equipment, Instruments, Investment Property, Documents, Letter of Credit Rights, Commercial Tort Claims, and General Intangibles.

1.10. " **Complete Termination** " – Complete Termination occurs upon satisfaction of the following conditions:

1.10.1. Payment in full of all Obligations of Seller to Purchaser;

1.10.2. If Purchaser has issued or caused to be issued guarantees, promises, or letters of credit on behalf of Seller, acknowledgement from any beneficiaries thereof that Purchaser or any other issuer has no outstanding direct or contingent liability therein.

1.10.3. Seller has executed and delivered to Purchaser a general release in the form of Exhibit 1.10.3. attached hereto.

1.11. " **Early Termination Date** " – See Section 20 hereof.

1.11.1. " **Early Termination Fee** " – None (waived)

1.12. **"Eligible Account** " – An Account that is acceptable for purchase as determined by Purchaser in the exercise of its reasonable sole credit or business judgment.

1.13. " **Events of Default** " – See Section 17.3.

1.14. **"Existing Equipment Liens"** – The liens and security interests described in Exhibit 1.14 hereto.

1.15. " **Expedited Funding Fee** " – $35.00.

1.16. " **Exposed Payments** " – Payments received by Purchaser from or for the account of a Payor that has become subject to a bankruptcy proceeding, to the extent such payments cleared the Payor's deposit account within ninety days of the commencement of said bankruptcy case.

1.17. " **Face Amount** " – The face amount due on an Account at the time of purchase, less Purchaser's estimate of adjustments that will be taken by Account Debtor including but not limited to adjustments for returns and stocking fees.

1.18. " **Factoring Fee" –** The Factoring Fee Percentage multiplied by the Face Amount of a Purchased Account, for each Factoring Fee Period or portion thereof, that any portion thereof remains unpaid, computed from the end of the Initial Fee Period to and including the date on which a Purchased Account is Closed.

1.19. " **Factoring Fee Percentage** " – 0.833%.

1.20. " **Factoring Fee Period** " – 10 days.

1.21. **"Future Equipment Lien"** – Any lien created on or after the date hereof on Equipment hereafter acquired by Seller.

1.22. " **Initial Fee"** – 2.500% of the Face Amount.

1.23. " **Initial Fee Period** " – 30 days from the Purchase Date.

1.24. " **Insolvency Date** " – The date on which an Account Debtor becomes Insolvent.

1.25. " **Insolvent** " – An Account Debtor has become Insolvent if it becomes the subject of a bankruptcy proceeding, at all other relevant times an Account Debtor is not Insolvent.

1.26. " **Invoice** " – The document that evidences or is intended to evidence an Account. Where the context so requires, reference to an Invoice shall be deemed to refer to the Account to which it relates.

1.27. " **Late Charge** " – 0.25% per day.

1.28. " **Late Payment Date** " – seventy-five days from the date on which a Purchased Account was Purchased.

1.29. " **Maximum Amount** " – $1,500,000.

1.30. " **Minimum Advance Amount** " – $1,000.

1.31. " **Minimum Funding Fee** " – $125.

1.32. " **Misdirected Payment Fee** " – 15% of the amount of any payment (but in no event less than $1,000) on account of a Purchased Account (and, after the occurrence of an Event of Default, payments on accounts of any Account) which has been received by Seller and not delivered in kind to Purchaser on or before two business days following the date of receipt by Seller, or 30% of the amount of any such payment which has been received by Seller as a result of any action taken by Seller to cause such payment to be made to Seller.

1.33. " **Missing Notation Fee** " – 15% of the Face Amount.

1.34. " **Obligations** " – All present and future obligations owing by Seller to Purchaser whether arising hereunder or otherwise, and whether arising before, during or after the commencement of any bankruptcy case in which Seller is a Debtor.

1.35. **"Parties** " – Seller and Purchaser.

1.36. " **Payor** " – An Account Debtor or other obligor on an Account, or entity making payment thereon for the account of such party.

1.37. **"Permitted Liens"** – Liens and security interests held by Lender, liens and security interests held by Subordinating Creditors, the Existing Equipment Liens, any Future Equipment Liens authorized by Purchaser pursuant to Section 8.2. hereof, and liens securing the claims or demands of materialmen, mechanics, carriers, warehousemen, and other like persons not yet due.

1.38. " **Purchase Date** " – The date on which Seller has been advised in writing that Purchaser has agreed to purchase an Account.

1.39. " **Purchase Price** " – The Face Amount of a Purchased Account less the Initial Fee.

1.40. " **Purchased Accounts** " – Accounts purchased hereunder which have not been Closed.

1.41. " **Repurchased** " – An Account has been repurchased when Seller has paid to Purchaser the then unpaid Face Amount.

1.42. " **Repurchased Account** " – See Section 7.1.2. hereof.

1.43. " **Required Reserve Amount** " – The Reserve Percentage multiplied by the unpaid balance of Purchased Accounts

1.44. " **Reserve Account** " – A bookkeeping account on the books of the Purchaser representing the portion of the Purchase Price which has not been paid by Purchaser to Seller, maintained by Purchaser to ensure Seller's performance with the provisions hereof.

1.45. " **Reserve Percentage** " – 20%.

1.46. " **Reserve Shortfall** " – The amount by which the Reserve Account is less than the Required Reserve Amount.

1.47. " **Schedule of Accounts** " – A form supplied by Purchaser from time to time wherein Seller lists such of its Accounts as it requests that Purchaser purchase under the terms of this Agreement.

1.48. **"Subordinating Creditors"** -

1.49. " **Term** " – A one year period, computed from the date hereof.

1.50. " **Termination Date** " – The earlier of (i) the Early Termination Date, or (ii) the end of the last Term which was not followed by an extension or renewal under Section 20. hereof.

1.51. " **UCC** " – The Uniform Commercial Code as adopted in the Chosen State.

2. **Sale; Purchase Price; Billing**

2.1. **Assignment and Sale.**

2.1.1. Seller shall offer to sell to Purchaser as absolute owner, with full recourse, such of Seller's Accounts as are listed from time to time on Schedules of Accounts.

2.1.2. Upon purchase, Purchaser will assume the risk of non-payment on Purchased Accounts, so long as (i) the cause of non-payment is **solely** due to an Account Debtor becoming Insolvent, and (ii) the Account Debtor is not an Affiliate of Seller.

2.1.3. Each Schedule of Accounts shall be accompanied by such documentation supporting and evidencing the Account, as Purchaser shall from time to time request.

2.1.4. Purchaser may, but need not purchase from Seller such Accounts as Purchaser determines to be Eligible Accounts.

2.1.5. Purchaser does not intend to purchase any Account which will cause the unpaid balance of Purchased Accounts to exceed the Maximum Amount .

2.1.6. Purchaser shall pay the Purchase Price, of any Purchased Account, less any amounts due to Purchaser from Seller, within one business day of the Purchase Date, whereupon the Accounts shall be deemed purchased hereunder. In the event that Seller requests payment of the Purchase Price on the Purchase Date, Seller shall immediately pay the Expedited Funding Fee to Purchaser.

2.1.7. Notwithstanding anything to the contrary contained herein, Purchaser shall not make any payment to Seller in an amount less than the Minimum Advance Amount, except upon the request of Seller, whereupon Seller shall pay the Minimum Funding Fee to Purchaser.

2.2. **Billing** . Purchaser may send a monthly statement to all Payors itemizing their account activity during the preceding billing period. All Payors will be instructed to make payments to Purchaser.

3. **Reserve Account** .

3.1. Seller shall pay to Purchaser on demand the amount of any Reserve Shortfall.

3.2. Purchaser shall, from time to time, pay to Seller any amount by which the Reserve Account exceeds the Required Reserve Amount, but in no event less frequently than weekly, except u **pon termination of this Agreement or upon the occurrence of any Event of Default, whether or not cured or waived, in which case the frequency of paying to Seller the difference between the Reserve Account and the Required Reserve Amount shall be at the discretion of Purchaser.**

3.3. Purchaser may charge the Reserve Account with any Obligation.

3.4. Purchaser may pay any amounts due Seller hereunder by a credit to the Reserve Account.

3.5. On the Insolvency Date, Purchaser shall credit the Reserve Account with the unpaid Purchase Price of a Purchased Account (other than a Repurchased Account) owed by an Insolvent Account Debtor.

3.6. Purchaser shall purchase from Seller any Repurchased Account on the Insolvency Date.

3.7. Concurrently with Complete Termination, Purchaser shall pay to Seller the amounts remaining in the Reserve Account, if any.

4. **Exposed Payments.**

4.1. With respect to Purchased Accounts repurchased pursuant to Section 7.1.1., upon termination of this Agreement Seller shall pay to Purchaser (or Purchaser may retain), to hold in a non-segregated non-interest bearing account the amount of all Exposed Payments (the "Preference Reserve").

4.2. Purchaser may charge the Preference Reserve with the amount of any Exposed Payments that Purchaser pays to the bankruptcy estate of the Payor that made the Exposed Payment, on account of a claim asserted under Section 547 of the Bankruptcy Code.

4.3. Purchaser shall refund to Seller from time to time that balance of the Preference Reserve for which a claim under Section 547 of the Bankruptcy Code can no longer be asserted due to the passage of the statute of limitations, settlement with the bankruptcy estate of the Payor or otherwise.

5. **Authorization for Purchases** .

5.1. Subject to the terms and conditions of this Agreement, Purchaser is authorized to purchase Accounts upon telephonic, facsimile or other instructions received from anyone purporting to be an officer, employee or representative of Seller.

6. **Fees and Expenses** . Seller shall pay to Purchaser:

6.1. **Factoring Fee** . The Factoring Fee on the date on which a Purchased Account is Closed.

6.2. **Misdirected Payment Fee** . Any Misdirected Payment Fee immediately upon its accrual. It is recognized that the costs imposed upon Purchaser by the Seller's action or inaction resulting in the imposition of this fee are difficult to ascertain, and this fee represents the good faith effort to compensate Purchaser without imposing upon the parties the expensive burden of litigating that cost, and is the agreed liquidated damages with result therefrom.

6.3. **Missing Notation Fee** . The Missing Notation Fee on any Invoice that is sent by Seller to a Payor that does not contain the notice as required by Section 12.3. hereof. It is recognized that the costs imposed upon Purchaser by the Seller's action or inaction resulting in the imposition of this fee are difficult to ascertain, and this fee represents the good faith effort to compensate Purchaser without imposing upon the parties the expensive burden of litigating that cost, and is the agreed liquidated damages with result therefrom.

6.4. **Early Termination Fee.** In the event that Seller elects to terminate this Agreement other than pursuant to Section 20. the Early Termination Fee.

6.5. **Late Charge** . The Late Charge, on demand, on all past due amounts due from Seller to Purchaser hereunder.

6.6. **Out-of-pocket Expenses** . The out-of-pocket expenses directly incurred by Purchaser in the administration of this Agreement such as wire transfer fees, postage and audit fees. Seller shall not be required to pay for more than two audits per twelve-month period. Prior to an Event of Default, the maximum charge per audit shall not exceed $350; after an Event of Default the maximum charge per audit shall not exceed $3750.

7. **Repurchase Of Accounts.**

7.1. Purchaser may require that Seller repurchase, by payment of the then unpaid Face Amount thereof together with any unpaid fees relating to the Purchased Account on demand as follows:

7.1.1. **Notwithstanding Insolvency** . Notwithstanding an Account Debtor becoming Insolvent:

(a) Any Purchased Account:

(i) The payment of which has been disputed by the Payor obligated thereon, Purchaser being under no obligation to determine the bona fides of such dispute;

(ii) For which Seller has breached any warranty as set forth in the Section 14.4.

(b) Purchased Accounts upon the occurrence of an Event of Default, or upon the termination date of this Agreement.

7.1.2. **Absent Insolvency of an Account Debtor.** If an Account Debtor has not become Insolvent on or prior to the Late Payment Date, any Purchased Account which remains unpaid beyond the Late Payment Date ("Repurchased Account").

7.1.3. **Purchase of Repurchased Account** . Purchaser shall purchase from Seller any Repurchased Account on the Insolvency Date.

8. **Security Interest** .

8.1. As collateral securing the Obligations, Seller grants to Purchaser a continuing first priority security interest in the Collateral, provided, however, that Purchaser acknowledges that its lien will be subordinate to any Existing Equipment Lien.

8.2. Seller may request that Purchaser consent to the creation of a Future Equipment Lien for the purposes of financing or refinancing the purchase of a piece of Equipment, and such consent shall not be unreasonably withheld by Purchaser.

8.3. Notwithstanding the creation of this security interest, the relationship of the parties shall be that of Purchaser and Seller of accounts, and not that of lender and borrower.

9. **Clearance Days** .

9.1. For all purposes under this Agreement, Clearance Days will be added to the date on which Purchaser receives any payment.

10. **Authorization to Purchaser** .

10.1. Seller irrevocably authorizes Purchaser at Seller's expense, to exercise at any time any of the following powers until all of the Obligations have been paid in full:

10.1.1. Receive, take, endorse, assign, deliver, accept and deposit, in the name of Purchaser or Seller, proceeds of any Collateral;

10.1.2. Take or bring, in the name of Purchaser or Seller, all steps, actions, suits or proceedings deemed by Purchaser necessary or desirable to effect collection of or other realization upon Purchaser's Accounts;

10.1.3. With respect to any of the following established or issued for the benefit of Seller, either individually or as a member of a class or group, file any claim under (i) any bond or (ii) under any trust fund.

10.1.4. Pay any sums necessary to discharge any lien or encumbrance which is senior to Purchaser's security interest in any assets of Seller, which sums shall be included as Obligations hereunder, and in connection with which sums the Late Charge shall accrue and shall be due and payable;

10.1.5. File in the name of Seller or Purchaser or both:

(a) Mechanics lien or related notices, or

(b) Claims under any payment bond, in connection with goods or services sold by Seller in connection with the improvement of realty;

10.1.6. Notify any Payor obligated with respect to any Account, that the underlying Account has been assigned to Purchaser by Seller and that payment thereof is to be made to the order of and directly and solely to Purchaser;

10.1.7. Communicate directly with Seller's Payors to verify the amount and validity of any Account created by Seller.

10.1.8. After an Event of Default:

(a) Change the address for delivery of mail to Purchaser and to receive and open mail addressed to Seller;

(b) Extend the time of payment of, compromise or settle for cash, credit, return of merchandise, and upon any terms or conditions, any and all Accounts and discharge or release any Account Debtor or other obligor (including filing of any public record releasing any lien granted to Seller by such Account Debtor), without affecting any of the Obligations;

10.1.9. File any initial financing statements and amendments thereto that:

(a) Indicate the collateral as all assets of the Seller or words of similar effect, regardless of whether any particular asset comprised in the collateral falls within the scope of Article 9 of the UCC, or as being of an equal or lesser scope or with greater detail;

(b) Contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Seller is an organization, the type of organization, and any organization identification number issued to the Seller and, (ii) in the case of a financing statement filed as a fixture filing or indicating collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the collateral relates; and

(c) Contain a notification that the Seller has granted a negative pledge to the Purchaser, and that any subsequent lienor may be tortuously interfering with Purchaser's rights;

10.1.10. Advise third parties that any notification of Seller's Account Debtors will interfere with Purchaser's collection rights.

10.1.11. File any Correction Statement in the name of Seller under Section 9-518 of the UCC that Purchaser reasonably deems necessary to preserve its rights hereunder.

10.2. Seller authorizes Purchaser to accept, endorse and deposit on behalf of Seller any checks tendered by an Account Debtor "in full payment" of its obligation to Seller. Seller shall not assert against Purchaser any claim arising therefrom, irrespective of whether such action by Purchaser effects an accord and satisfaction of Seller's claims, under Section 3-311 of the UCC, or otherwise.

11. **ACH Authorization** .

11.1. In order to satisfy any of the Obligations, Seller authorizes Purchaser to initiate electronic debit or credit entries through the ACH system to any deposit account maintained by Seller.

12. **Covenants By Seller** .

12.1. After written notice by Purchaser to Seller, and automatically, without notice, after an Event of Default, Seller shall not (a) grant any extension of time for payment of any of its Accounts, (b) compromise or settle any of its Accounts for less than the full amount thereof, (c) release in whole or in part any Payor, or (d) grant any credits, discounts, allowances, deductions, return authorizations or the like with respect to any of the Accounts.

12.2. From time to time as requested by Purchaser, at the sole expense of Seller, Purchaser or its designee shall have access, during reasonable business hours if prior to an Event of Default and at any time if on or after an Event of Default, to all premises where Collateral is located for the purposes of inspecting (and removing, if after the occurrence of an Event of Default) any of the Collateral, including Seller's books and records, and Seller shall permit Purchaser or its designee to make copies of such books and records or extracts therefrom as Purchaser may request. Without expense to Purchaser, Purchaser may use any of Seller's personnel, equipment, including computer equipment, programs, printed output and computer readable media, supplies and premises for the collection of Accounts and realization on other Collateral as Purchaser, in its sole discretion, deems appropriate. Seller hereby irrevocably authorizes all accountants and third parties to disclose and deliver to Purchaser at Seller's expense all financial information, books and records, work papers, management reports and other information in their possession relating to Seller.

12.3. Before sending any Invoice to an Account Debtor, Seller shall mark same with such notice of assignment as Purchaser may require.

12.4. Seller shall pay when due all payroll and other taxes, and shall provide proof thereof to Purchaser in such form as Purchaser shall reasonably require.

12.5. Seller shall not create, incur, assume or permit to exist any lien, other than Permitted Liens, upon or with respect to any assets in which Purchaser now or hereafter holds a security interest.

12.6. Notwithstanding Seller's obligation to pay the Misdirected Payment Fee, Seller shall pay to Purchaser on the next banking day following the date of receipt by Seller the amount of:

12.6.1. Any payment on account of a Purchased Account.

12.6.2. After the occurrence of an Event of Default, any payment on account of any Account.

12.7. Avoidance Claims.

12.7.1. Seller shall indemnify Purchaser from any loss arising out of the assertion of any Avoidance Claim other than such claims that relate to Purchased Accounts that are owed by an Account Debtor which was Insolvent at the time the subject payment was received by Purchaser, and shall pay to Purchaser on demand the amount thereof.

12.7.2. Seller shall notify Purchaser within two business days of it becoming aware of the assertion of an Avoidance Claim.

12.7.3. This provision shall survive termination of this Agreement.

13. **Account Disputes** .

13.1. Seller shall notify Purchaser promptly of and, if requested by Purchaser, will settle all disputes concerning any Purchased Account, at Seller's sole cost and expense. Purchaser may, but is not required to, attempt to settle, compromise, or litigate (collectively, "Resolve") the dispute upon such terms, as Purchaser in its sole discretion deem advisable, for Seller's account and risk and at Seller's sole expense. Upon the occurrence of an Event of Default Purchaser may Resolve such issues with respect to any Account of Seller.

14. **Representation and Warranties**. Seller represents and warrants at the time of the execution of this Agreement, and at each Purchase Date that:

14.1. It is fully authorized to enter into this Agreement and to perform hereunder;

14.2. This Agreement constitutes its legal, valid and binding obligation; and

14.3. Seller's assets are presently worth more than the sum of its debts, excluding debts owed to Subordinating Creditors, and Seller is able to pay its debts as they become due.

14.4. Seller is in good standing in the jurisdiction of its organization.

14.5. The Purchased Accounts are and will remain:

14.5.1. Bona fide existing obligations created by the sale and delivery of goods or the rendition of services in the ordinary course of Seller's business;

14.5.2. To the best of Seller's knowledge, unconditionally owed and will be paid to Purchaser without defenses, disputes, offsets, counterclaims, or rights of return or cancellation, other than Accounts owed by an Account Debtor which was Insolvent.

14.5.3. Not the obligation or purported obligation of any entity that is affiliated with Seller or in any way is not at "arms length" from the Seller.

14.6. Seller has not received notice or otherwise learned of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any applicable Account Debtor regarding Purchased Accounts.

15. **Indemnification**.

15.1. Seller agrees to indemnify Purchaser against and save Purchaser harmless from any and all manner of suits, claims, liabilities, demands and expenses (including reasonable attorneys' fees and collection costs) resulting from or arising out of this Agreement, and resulting from or arising out of acts or omissions by Seller or any Account Debtor, whether directly or indirectly, including the transactions or relationships contemplated hereby (including the enforcement of this Agreement), and any failure by Seller to perform or observe its obligations under this Agreement.

16. **Disclaimer of Liability**.

16.1. In no event will Purchaser be liable to Seller for any lost profits, lost savings or other consequential, incidental or special damages resulting from or arising out of or in connection with this agreement, the transactions or relationships contemplated hereby or purchaser's performance or failure to perform hereunder, even if purchaser has been advised of the possibility of such damages.

17. **Default** .

17.1. **Events of Default** . The following events will constitute an Event of Default hereunder: (a) Seller defaults in the payment of any Obligations or in the performance of any provision hereof or of any other agreement now or hereafter entered into with Purchaser, or any warranty or representation contained herein proves to be false in any way, howsoever minor, (b) Seller or any guarantor of the Obligations becomes subject to any debtor-relief proceedings, (c) any such guarantor fails to perform or observe any of such Guarantor's obligations to Purchaser or shall notify Purchaser of its intention to rescind, modify, terminate or revoke any guaranty of the Obligations, or any such guaranty shall cease to be in full force and effect for any reason whatever, (d) Purchaser for any reason, in good faith, deems itself insecure with respect to the prospect of repayment or performance of the Obligations.

17.2. **Waiver of Notice** . PURCHASER'S FAILURE TO CHARGE OR ACCRUE INTEREST OR FEES AT ANY "DEFAULT" OR "PAST DUE" RATE SHALL NOT BE DEEMED A WAIVER BY PURCHASER OF ITS CLAIM THERETO.

17.3. **Effect of Default** .

17.3.1. Upon the occurrence of any Event of Default, in addition to any rights Purchaser has under this Agreement or applicable law, Purchaser may do either or both of (i) demand repurchase of all Purchased Accounts or any portion thereof, (ii) immediately terminate this Agreement. In addition, upon an Event of Default all Obligations shall immediately become due and payable without notice.

17.3.2. The Late Charge shall accrue and is payable on demand on any Obligation not paid when due.

18. **Account Stated** .

18.1. Purchaser shall render to Seller a statement setting forth the transactions arising hereunder. Each statement shall be considered correct and binding upon Seller as an account stated, except to the extent that Purchaser receives, within sixty days after the mailing of such statement, written notice from Seller of any specific exceptions by Seller to that statement, and then it shall be binding against Seller as to any items to which it has not objected.

19. **Amendment and Waiver** .

19.1. Only a writing signed by all parties hereto may amend this Agreement. No failure or delay in exercising any right hereunder shall impair any such right that Purchaser may have, nor shall any waiver by Purchaser hereunder be deemed a waiver of any default or breach subsequently occurring. Purchaser's rights and remedies herein are cumulative and not exclusive of each other or of any rights or remedies that Purchaser would otherwise have.

20. **Termination; Effective Date** .

20.1. This Agreement will be effective on the date it is signed by the Parties, shall continue for the Term, and shall be automatically extended for successive Terms. Seller may terminate this Agreement by delivering a notice to Purchaser stating (i) that seller intends to terminate this Agreement and (ii) the date such termination shall be effective, such date not to be earlier than sixty days following the date of such notice. Notwithstanding anything to the contrary, Seller's notice hereunder shall not be effective until and unless Seller has repaid all of the Obligations and otherwise satisfied the requirements for a Complete Termination. Purchaser may terminate this Agreement at any time after an Event of Default by giving written notice to Seller. Purchaser may also terminate this Agreement by giving written notice to Seller at least sixty days prior to the end of the Term in which case upon expiration of the Term, Purchaser shall cease purchasing Accounts, and upon Complete Termination but not earlier, this Agreement shall terminate.

21. **No Lien Termination without Release** .

21.1. In recognition of the Purchaser's right to have its attorneys' fees and other expenses incurred in connection with this Agreement secured by the Collateral, notwithstanding payment in full of all Obligations by Seller, Purchaser shall not be required to record any terminations or satisfactions of any of Purchaser's liens on the Collateral unless and until Complete Termination has occurred. Seller understands that this provision constitutes a waiver of its rights under Section 9-513 of the UCC.

22. **Conflict** .

22.1. Unless otherwise expressly stated in any other agreement between Purchaser and Seller, if a conflict exists between the provisions of this Agreement and the provisions of such other agreement, the provisions of this Agreement shall control.

23. **Severability** .

23.1. In the event any one or more of the provisions contained in this Agreement is held to be invalid, illegal or unenforceable in any respect, then such provision shall be ineffective only to the extent of such prohibition or invalidity, and the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

24. **Relationship of Parties** .

24.1. The relationship of the parties hereto shall be that of Seller and Purchaser of Accounts, and Purchaser shall not be a fiduciary of the Seller, although Seller may be a fiduciary of the Purchaser.

25. **Attorneys' Fees** . Seller agrees to reimburse Purchaser on demand for:

25.1. The actual amount of all costs and expenses, including attorneys' fees, which Purchaser has incurred or may incur in:

25.1.1. Regards to any dispute with Purchaser, an Account Debtor a person guaranteeing this Agreement or any of their respective agents, representatives, subcontractors, employees or officers;

25.1.2. Protecting, preserving or enforcing any lien, security or other right granted by Seller to Purchaser or arising under applicable law, whether or not suit is brought, including but not limited to the defense of any Avoidance Claims or the defense of Purchaser's lien priority;

25.2. The actual costs, including photocopying (which, if performed by Purchaser's employees, shall be at the rate of $.10/page), travel, and attorneys' fees and expenses incurred in complying with any subpoena or other legal process in any way relating to Seller. This provision shall survive termination of this Agreement.

25.3. The actual amount of all costs and expenses, including attorneys' fees, which Purchaser may incur in enforcing this Agreement and any documents prepared in connection herewith, or in connection with any federal or state insolvency proceeding commenced by or against Seller, including those (i) arising out the automatic stay, (ii) seeking dismissal or conversion of the bankruptcy proceeding or (ii) opposing confirmation of Seller's plan there under.

26. **Entire Agreement** .

26.1. No promises of any kind have been made by Purchaser or any third party to induce Seller to execute this Agreement. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Agreement.

27. **Choice of Law** .

27.1. This Agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the Chosen State.

28. **Jury Trial Waiver .**

28.1. **IN RECOGNITION OF THE HIGHER COSTS AND DELAY WHICH MAY RESULT FROM A JURY TRIAL, THE PARTIES HERETO WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING HEREUNDER, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.**

29. **Venue; Jurisdiction** .

29.1. Any suit, action or proceeding arising hereunder, or the interpretation, performance or breach hereof, shall, if Purchaser so elects, be instituted in any court sitting in the Chosen State, in the city in which Purchaser's chief executive office is located, or if none, any court sitting in the Chosen State, or alternatively, if Purchaser so elects, any court in which Seller's chief executive office is located, or if none, any court sitting in the state in which Seller's chief executive office is located (the "Acceptable Forums"). Seller agrees that the Acceptable Forums are convenient to it, and submits to the jurisdiction of the Acceptable Forums and waives any and all objections to jurisdiction or venue. Should such proceeding be initiated in any other forum, Seller waives any right to oppose any motion or application made by Purchaser to transfer such proceeding to an Acceptable Forum.

30. **Time of the Essence** .

30.1. It is agreed that time is of the essence in all matters herein.

31. **Service of Process** .

31.1. Seller agrees that Purchaser may effect service of process upon Seller by regular mail at the address set forth herein or at such other address as may be reflected in the records of Purchaser, or at the option of Purchaser by service upon Seller's agent for the service of process.

32. **Assignment**

32.1. Purchaser may assign its rights and delegate its duties hereunder. Upon such assignment, Seller shall be deemed to have attorned to such assignee and shall owe the same obligations to such assignee and shall accept performance hereunder by such assignee as if such assignee were Purchaser.

33. **Counterparts** .

33.1. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement, and any party delivering such an executed counterpart of the signature page to this Agreement by facsimile to any other party shall thereafter also promptly deliver a manually executed counterpart of this Agreement to such other party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Agreement.

34. **Notice** .

34.1. All notices required to be given to any party other than Purchaser shall be deemed given upon the first to occur of (i) deposit thereof in a receptacle under the control of the United States Postal Service, (ii) transmittal by electronic means to a receiver under the control of such party, or (iii) actual receipt by such party or an employee or agent of such party. All notices to Purchaser shall be deemed given upon actual receipt by a responsible officer of Purchaser.

34.2. For the purposes hereof, notices hereunder shall be sent to the following addresses, or to such other addresses as each such party may in writing hereafter indicate:

**SELLER**

| | |
|---|---|
| Address: | 580 Garcia Avenue<br>Pittsburg, CA 94565 |
| Officer: | Elliot Maza, Chief Executive Officer |
| Email address: | emaza@biozonelabs.com |

**PURCHASER**

| | |
|---|---|
| Address: | 90 Merrick Avenue<br>East Meadow, NY 11554 |
| Officer: | Dan Demonte, Vice President |
| Email address: | dan.demonte@midlandamericancapital.com |

IN WITNESS WHEREOF, the Parties have executed this agreement on the day and year first above written.

SELLER: **BioZone Laboratories, Inc.**

By: _____
Elliot Maza
Chief Executive Officer

PURCHASER: **Midland American Capital Corporation**

By: _____
Tracey Turzinski
Executive Vice President

**EXHIBIT 1.10.3.**

**GENERAL RELEASE**

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which are hereby acknowledged, the undersigned and each of them (collectively "Releasor") hereby forever releases, discharges and acquits **Midland American Capital Corporation** ("Releasee"), its parent, directors, shareholders, agents and employees, of and from any and all claims of every type, kind, nature, description or character, and irrespective of how, why, or by reason of what facts, whether heretofore existing, now existing or hereafter arising, or which could, might, or may be claimed to exist, of whatever kind or name, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length, to the extent that they arise out of or are in way connected to or are related to that certain Factoring and Security Agreement dated March ____, 2013.

Releasor agrees that the matters released herein are not limited to matters which are known or disclosed, and the Releasor waives any and all rights and benefits which it now has, or in the future may have.

Releasor acknowledges that factual matters now unknown to it may have given or may hereafter give rise to Claims which are presently unknown, unanticipated and unsuspected, and it acknowledges that this Release has been negotiated and agreed upon in light of that realization and that it nevertheless hereby intends to release, discharge and acquit the Releasee from any such unknown Claims.

Acceptance of this Release shall not be deemed or construed as an admission of liability by any party released.

In the event of any litigation arising out of or related to this Release, the prevailing party shall recover its reasonable attorney's fees and expenses from the unsuccessful party. It shall be presumed (subject to rebuttal only by the introduction of competent evidence to the contrary) that the amount recoverable is the amount billed to the prevailing party by its counsel and that such amount will be reasonable if based on the billing rates charged to the prevailing party by its counsel in similar matters.

Releasor acknowledges that either (a) it has had advice of counsel of its own choosing in negotiations for and the preparation of this release, or (b) it has knowingly determined that such advice is not needed.

DATED: _____

BioZone Laboratories, Inc.

**CONTRACT EXHIBIT**

By: _____
Printed Name:
Title: Chief Executive Officer

**WIRE AND ACH TRANSFER AUTHORIZATION**

MIDLAND AMERICAN CAPITAL CORPORATION is hereby authorized to transfer money via wire or automated clearing house transmission into the account specified below. (Please fill-in information requested.)

BANK:

ADDRESS:

CITY, STATE, ZIP:

ROUTING (ABA) NO.:

ACCOUNT NO.:

BioZone Laboratories, Inc.

By: _____ Date: _____

Elliot Maza
Chief Executive Officer

**EXHIBIT 1.14**

**EXISTING EQUIPMENT LIENS**

1. UCC-1 filed on May 13, 2008, with the California Secretary of State as Filing Number 087157745660, and any assignments, amendments and continuations thereof.

2. UCC-1 filed on June 24, 2008, with the California Secretary of State as Filing Number 087162745292, and any assignments, amendments and continuations thereof.

3. UCC-1 filed on May 28, 2010, with the California Secretary of State as Filing Number 107233209269, and any assignments, amendments and continuations thereof.

4. UCC-1 filed on July 14, 2010, with the California Secretary of State as Filing Number 107238295441, and any assignments, amendments and continuations thereof.

5. UCC-1 filed on July 20, 2010, with the California Secretary of State as Filing Number 107238740183, and any assignments, amendments and continuations thereof.

6. UCC-1 filed on December 27, 2010, with the California Secretary of State as Filing Number 107255646834, and any assignments, amendments and continuations thereof.

7. UCC-1 filed on February 9, 2011, with the California Secretary of State as Filing Number 117260162935, and any assignments, amendments and continuations thereof.

8. UCC-1 filed on February 27, 2013, with the California Secretary of State as Filing Number 137349925629, and any assignments, amendments and continuations thereof.

9. UCC-1 filed on March 1, 2013, with the California Secretary of State as Filing Number 137350306301, and any assignments, amendments and continuations thereof.

**PURCHASE MONEY FINANCING RIDER**

This PURCHASE MONEY FINANCING RIDER ("Rider") is dated as of March ____, 2013 between BioZone Laboratories, Inc., a California corporation ("Debtor") and Midland American Capital Corporation, a Nevada corporation ("Secured Party").

**RECITAL**

A. Debtor and Secured Party are parties to the Factoring Agreement pursuant to which Secured Party purchases accounts from Debtor.

B. Debtor may, from time to time, request financing hereunder from Secured Party to enable Debtor to acquire Raw Materials from Suppliers for manufacturing Pre-Sold Goods for sale to Buyers which have provided to Debtor purchase orders or other confirmation.

C. In connection therewith, Debtor may request that Secured Party either (1) cause Issuer to issue Letters of Credit to Suppliers, or (2) tender payments directly to Suppliers for Raw Materials, in accordance with the terms and conditions herein.

NOW, THEREFORE, in consideration of the premises, and intending to be legally bound hereby, the Parties hereby agree as follows:

**AGREEMENT**

1. **Certain Definitions and Index to Definitions** . Unless otherwise defined herein, any capitalized terms used herein shall have the meanings ascribed in the Factoring Agreement. All terms used herein that are defined in the Uniform Commercial Code shall have the meanings ascribed thereto therein. As used herein, the following terms shall have the following meanings:

1.1 **"Additional Fees Advance"** – Any fees incidental to a Financed Transaction which are paid by Secured Party on behalf of Debtor, including, but not limited to, banking fees, inspection fees, and shipping fees.

1.2 " **Advance** " – A Letter of Credit Advance, Purchase Money Advance, or Additional Fees Advance.

1.3 " **Buyer** " - A customer of Debtor, acceptable to Secured Party in its sole discretion, which has agreed to purchase Pre-Sold Goods.

1.4 " **Due Date** " – The earliest of:

1.4.1 One-hundred days from the date of an Advance, or

1.4.2 The date on which the Subject Account arising out of the sale of Pre-Sold Goods is purchased by the Secured Party.

1.5 " **Eligible Purchase Order** " – A binding Purchase order issued by a Buyer to the Debtor which specifies the terms, description of the Pre-sold Goods, quantity, and price of such order.

1.6 " **Factoring Agreement** " - That certain Factoring and Security Agreement between Debtor and Secured Party dated even or nearly even herewith, as amended.

1.7 " **Factoring Fees** " – The Base Fees as set forth in the Factoring Agreement.

1.8 **"Factory Purchase Order" –** A written purchase order for the Raw Materials issued by the Debtor to the Supplier and specifying the terms, description of the goods, quantity, and price of such factory order.

1.9 " **Financed Transaction** " – A transaction whereby Secured Party, upon the Debtor's request, (i) arranges for the issuance of a Letter of Credit or (ii) makes a Purchase Money Advance.

1.10 **Financing Request Package** " – Shall include the following:

1.10.1 An Eligible Purchase Order;

1.10.2 A Purchase Order Acknowledgement issued by the Debtor to the Buyer;

1.10.3 A Factory Purchase Order issued by the Debtor to the Supplier;

1.10.4 A Pro-forma Invoice issued by a Supplier;

1.10.5 An itemization of all costs related to the Financed Transaction, including but not limited to the cost and sale price of the Raw Materials, Pre-Sold Goods, shipping and insurance costs, and customs duties;

1.10.6 Identification of any freight forwarder, shipping company, and instructions for delivery of the Pre-Sold Goods to the Buyer;

1.10.7 A fully executed Supplier Letter;

1.10.8 A fully executed Shipping Broker's Agreement;

1.10.9 A fully executed Warehouse Agreement.

1.11 " **Initial Purchase Money Fee** " – The product of the Initial Purchase Money Fee Rate and the Purchase Money Accommodation.

1.12 " **Initial Purchase Money Fee Period** " – Thirty days from the making of a Purchase Money Accommodation.

1.13 " **Initial Purchase Money Fee Rate** " – 2.95%.

1.14 " **Issuer** " – The issuer of a Letter of Credit.

1.15 " **Letter of Credit** " – A letter of credit issued in favor of a Supplier.

1.15.1 To enable Debtor to acquire Raw Materials:

1.15.2 In a form acceptable to Secured Party;

1.15.3 Requiring *inter alia* , as a condition of draw by the Supplier, that the Supplier present an inspection certificate by the Debtor or an independent inspection service acceptable to Secured Party that the Raw Materials which are the subject of the Letter of Credit conform to a Factory Purchase Order;

1.15.4 Requiring that the shipment of the Raw Materials be evidenced by a negotiable bill of lading, consigned to Secured Party.

1.16 " **Letter of Credit Advance** " – Amounts paid by Secured Party on account of a Letter of Credit.

1.17 " **Pre-Sold Goods** " – Goods manufactured from Raw Materials which are the subject of an Eligible Purchase Order.

1.18 **"Pro-forma Invoice" –** A written acknowledgement issued by a Supplier confirming receipt of a Factory Purchase Order and specifying the terms, description of the Raw Materials, quantity, and price of such order;

1.19 " **Purchase Money Advance** " – A payment by Secured Party to a Supplier on account of the purchase price for Raw Materials.

1.20 " **Purchase Money Accommodation** " – either :

1.20.1 The face amount of a Letter of Credit that has not expired or been cancelled by the Issuer; or

1.20.2 The amount of an Advance other than a Letter of Credit Advance.

1.21 " **Purchase Money Fee** " – Commencing with the end of the Initial Purchase Money Fee Period, the product of the Purchase Money Fee Rate and the Purchase Money Accommodation for each Purchase Money Fee Period or portion thereof that any portion of a Purchase Money Accommodation remains unpaid.

1.22 " **Purchase Money Fee Period** " – Ten days.

1.23 " **Purchase Money Fee Rate** " – 0.983%.

1.24 **"Purchase Order Acknowledgement" –** A written acknowledgement issued by the Debtor to the Buyer confirming the receipt by the Debtor of an Eligible Purchase Order, specifying the terms, description of the Pre-Sold Goods, quantity, and price of such order.

1.25 **"Raw Materials" –** Raw materials used to manufacture Pre-Sold Goods.

1.26 " **Reserve Account** " – The account between Debtor and Secured Party maintained by Secured Party under the Factoring Agreement.

1.27 " **Subject Account** " – An Account, created by the sale of the goods or services which are the subject of an Eligible Purchase Order, owing by the issuer of an Eligible Purchase Order.

1.28 " **Supplier** " – A supplier, acceptable to Secured Party in its sole discretion, who has agreed to sell the Raw Materials which are the subject of a Financed Transaction.

1.29 " **Supplier Letter** " – A letter from Supplier, with all required information supplied, in the form attached hereto as Exhibit 1.28.

1.30 " **Warehouse** " – Segregated warehouse space in which Debtor agrees to maintain the Pre-Sold Goods, at a location specified by Secured Party.

1.31 " **Warehouse Agreement** " – An agreement among a warehouse, Debtor and Secured Party, in form acceptable to Secured Party, acknowledging Secured Party's security interest in the Pre-Sold Goods and providing among other things that such Pre-Sold Goods shall not be released by the warehouse without Secured Party's prior written consent.

2. **Incorporation into Factoring Agreement** . This Rider shall be deemed a part of the Factoring Agreement, the provisions of which are incorporated herein by reference.

3. **Letters of Credit .** Subject to the terms and conditions of this Agreement and the Factoring Agreement:

3.1 **Issuance of Letters of Credit.** Secured Party may, from time to time, in its sole discretion and at Debtor's request, cause the issuance of Letters of Credit in an amount determined by Secured Party.

3.2 **Request for Issuance.** Each request by Debtor for the issuance of Letter of Credit shall be accompanied by a Financing Request Package.

3.3 **Cancelation of Letters of Credit.** Debtor may, from time to time, request that Secured Party cause one or more Letters of Credit to be cancelled provided that no draws thereunder remain outstanding. In such event, Secured Party will request such cancellation by Issuer provided however that no Letter of Credit shall be deemed cancelled until it is cancelled by Issuer.

4. **Purchase Money Advances** .

4.1 Secured Party may, from time to time, in its sole discretion and at Debtor's request, make a Purchase Money Advance.

4.2 Each request by Debtor for a Purchase Money Advance shall be accompanied by a Financing Request Package.

5. **Reimbursement for Advances** .

5.1 Debtor shall reimburse Secured Party for all Advances on or before the Due Date. Such reimbursement may at Debtor's request be made out of funds available to Debtor under the Factoring Agreement.

5.2 Secured Party may charge Debtor's Reserve Account with any past due amounts hereunder.

5.3 Secured Party shall have no duty to inquire into the propriety of any request by an Issuer for payment by Secured Party, and all such payments by Secured Party shall conclusively establish Debtor's reimbursement obligations hereunder.

5.4 To secure Debtor's obligations hereunder, Secured Party may charge the Reserve Account with undrawn amount of any Letters of Credit.

6. **Security Interest**

6.1 As collateral securing the Obligations, Debtor grants to Secured Party a continuing first priority security interest in the Collateral, provided, however, that Secured Party acknowledges that its lien will be subordinate to any Existing Equipment Lien and any Future Equipment Lien Authorized by Secured Party pursuant to Section 8.2 of the Factoring Agreement.

7. **Sales of Accounts to Secured Party**

7.1 Debtor agrees to sell to Secured Party any Account arising out of the sale of Pre-Sold Goods which are the subject of a Financed Transaction.

8. **Authorization to Secured Party** .

8.1 Debtor irrevocably authorizes Secured Party at Debtor's expense, to exercise at any time any of the following powers until all of the Obligations have been paid in full:

8.1.1 Receive, take, endorse, assign, deliver, accept and deposit, in the name of Secured Party or Debtor, proceeds of any Collateral;

8.1.2 Notify any obligor obligated with respect to any Account, that all the Debtor's present and future Accounts have been assigned to Secured Party by Debtor and that payment thereof is to be made to the order of and directly and solely to Secured Party;

8.1.3 Communicate directly with Debtor's Payors to verify the amount and validity of any Account created by Debtor;

8.1.4 File any initial financing statements and amendments thereto that:

(a) Indicate the collateral as all assets of the Debtor or words of similar effect, regardless of whether any particular asset comprised in the collateral falls within the scope of Article 9 of the UCC, or as being of an equal or lesser scope or with greater detail;

(b) Contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Debtor is an organization, the type of organization, and any organization identification number issued to the Debtor and, (ii) in the case of a financing statement filed as a fixture filing or indicating collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the collateral relates.

9. **Fees** .

9.1 Debtor shall pay the:

9.1.1 Initial Purchase Money Fee immediately upon its accrual.

9.1.2 Purchase Money Fee at the end of each Purchase Money Fee Period.

10. **Reports of Cancelled Purchase Orders** .

10.1 Debtor shall immediately advise Secured Party if and when an Eligible Purchase Order against which a Letter of Credit has been issued has been cancelled or attempted to have been cancelled.

11. **Indemnification** .

11.1.1 Debtor unconditionally indemnifies Secured Party and holds Secured Party harmless from any and all loss, claim or liability incurred by Secured Party arising from any transactions or occurrences relating to Letters of Credit established or opened for Debtor's account, the collateral relating thereto and any drafts or acceptances thereunder, and all Obligations thereunder, including any such loss or claim due to any errors, omissions, negligence, misconduct or action taken by any Issuer. This indemnity shall survive termination of this Agreement. Debtor agrees that any charges incurred by Secured Party for Debtor's account by the Issuer shall be conclusive on Debtor and may be charged to the Financing Balance.

11.1.2 Secured Party shall not be responsible for: (a) the existence, character, quality, quantity, condition, packing, value or delivery of the goods purporting to be represented by any documents; (b) any difference or variation in the character, quality, quantity, condition, packing, value or delivery of the goods from that expressed in the documents; (c) the validity, sufficiency or genuineness of any documents presented in connection with the drawing under the Letter of Credit or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (d) the time, place, manner or order in which shipment is made; partial or incomplete shipment, or failure or omission to ship any or all of the goods referred to in the Letters of Credit or documents; (e) any deviation from instructions given by the applicant to the Issuer in connection with the Letter of Credit; (f) delay, default, or fraud by the shipper and/or anyone else in connection with the goods or the shipping thereof; or (g) any breach of contract between the shipper or vendors and Debtor.

11.1.3 Debtor agrees that any action taken by Secured Party, if taken in good faith, or any action taken by any Issuer, under or in connection with the Letters of Credit, or the drafts or acceptances, shall be binding on Debtor and shall not result in any liability whatsoever of Secured Party to Debtor. In furtherance thereof, Secured Party shall have the full right and authority to: (a) resolve any questions of non-compliance of documents; (b) give any instructions as to acceptance or rejection of any documents or goods; (c) execute any and all steamship or airways guaranties (and applications therefore), indemnities or delivery orders; (d) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents; and (e) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letters of Credit, drafts or acceptances; all in Secured Party's sole name.

11.2 Debtor agrees that: (a) any necessary import, export or other licenses or certificates for the import or handling of the subject goods will have been promptly procured; (b) all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the subject goods, or the financing thereof will have been promptly and fully complied with; and (c) any certificates in that regard that Secured Party may at any time request will be promptly furnished. In connection herewith, Debtor warrants and represents that all shipments made under any such Letters of Credit are in accordance with the laws and regulations of the countries in which the shipments originate and terminate, and are not prohibited by any such laws and regulations. Debtor assumes all risk, liability and responsibility for, and agrees to pay and discharge, all present and future local, state, federal or foreign taxes, duties, or levies. Any embargo, restriction, laws, customs or regulations of any country, state, Secured Party, or other political subdivision, where the subject goods are or may be located, or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely Debtor's risk, liability and responsibility.

12. **Insurance** .

12.1 Debtor shall maintain or cause to be maintained at all times, with financially sound and reputable insurers, casualty insurance with respect to the Inventory and other assets. All such insurance policies shall be in such form, substance, amounts and coverage as may be satisfactory to Secured Party and shall provide for thirty- (30) day's prior written notice to Secured Party of cancellation or reduction of coverage. Debtor hereby irrevocably authorizes Secured Party and any designee of Secured Party to obtain at debtor's expense, and, after an Event of Default, to adjust or settle any claim or other matter under or arising pursuant to such insurance or to amend or cancel such insurance. Debtor shall deliver to Secured Party evidence of such insurance and a Secured Party's loss payable endorsement naming Secured Party as loss payee as to all existing and future insurance policies relating to the Inventory. Debtor shall deliver to Secured Party, in kind, all instruments representing proceeds of insurance received by Debtor. Secured Party may apply any and all insurance proceeds received at any time to the cost of repairs to or replacement of any portion of the Inventory and/or, at Secured Party's option, to the payment of or as security for any of the Obligations, whether or not due, in any order or manner as Secured Party determines.

[ *Signature Page to Follow* ]

IN WITNESS WHEREOF, the parties hereto have caused this Rider to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

DEBTOR: **BioZone Laboratories, Inc.**

By: _____
Elliot Maza
Chief Executive Officer

SECURED PARTY: **Midland American Capital Corporation**

By: _____
Tracey Turzinski
Executive Vice President

**EXHIBIT 1.28**

MIDLAND AMERICAN CAPITAL

4600 Fuller Drive
Irving, TX 75038

[ *insert date* ]

[ *insert name of supplier* ]
[ *insert address of supplier* ]

Ladies and Gentlemen:

We provide financing to BioZone Laboratories, Inc. ("Debtor")

We agree to pay $ [ *insert purchase price* ] (the "Purchase Price") to you in payment for the products (the "Purchased Goods") described in purchase order # [ *insert purchase order number* ] (the "Purchase Order") issued to you by the Debtor, a copy of which is attached hereto.

Upon receipt of the Purchase Price, you agree to ship all of the Purchased Goods on or before [ *insert shipping date not later than two business days after receipt of payment* ] ("Final Shipping Date") to the "Ship To" address set forth in the Purchase Order via the shipping method set forth in the Purchase Order, fully insured by you.

If all of the Purchased Goods are not shipped in accordance with this letter agreement, you will repay the entire Purchase Price to us by wire transfer within three days of the Final Shipping Date. You will also repay to us, upon demand and by wire transfer, any portion of the Purchase Price which relate to goods shipped by you hereunder which are not free from all defects in materials, manufacturing, and design or which do not otherwise conform with the specifications listed on the Purchase Order.

You agree not to apply the Purchase Price to any transaction other than the Purchase Order.

In the event that either of us find it necessary to retain counsel in connection with this letter agreement, the prevailing party shall recover its reasonable attorney's fees and expenses from the unsuccessful party. It shall be presumed (subject to rebuttal only by the introduction of competent evidence to the contrary) that the amount recoverable is the amount billed to the prevailing party by its counsel and that such amount will be reasonable if based on the billing rates charged to the prevailing party by its counsel in similar matters.

Please have an authorized representative acknowledge your acceptance of this letter agreement. The signature of the Debtor hereto shall evidence its request that we pay the Purchase Price to you and to charge its account with us for the payment.

Sincerely yours,

**Midland American Capital Corporation**

By: _____
Tracey Turzinski
Executive Vice President

**ACKNOWLEDGED:**

**BioZone Laboratories, Inc.**

By: _____
Elliot Maza
Chief Executive Officer

**ACCEPTED AND AGREED TO:**
[ *insert name of supplier* ]

By:
Printed Name:
Title:

**GUARANTY AND SECURITY AGREEMENT**

**THIS DOCUMENT CONTAINS A WAIVER OF TRIAL BY JURY**

This GUARANTY AND SECURITY AGREEMENT dated as of March ___, 2013, is made by the entities or individuals which have signed below (individually or collectively, "Guarantor"), in favor of **Midland American Capital Corporation,** a Nevada Corporation ("Creditor").

FOR GOOD AND VALUABLE CONSIDERATION, and to induce Creditor to extend financial accommodations to Debtor (as defined below), Guarantor agrees as follows:

1. **DEFINITIONS AND CONSTRUCTION. AS USED HEREIN:**

1.1 " **Acceptable Forums** " – See Section 18.1 hereof.

1.2 " **Agreement** " – This Guaranty, as amended.

1.3 " **Bankruptcy Code** " – Title 11 of the United States Code.

1.4 " **Chosen State** " – Nevada.

1.5 " **Collateral** " **–** All Guarantor's present and future Accounts, Chattel Paper; Goods, including Inventory and Equipment; Instruments, Investment Property; Documents; and General Intangibles and the proceeds thereof.

1.6 **"Credit Documents** " –

1.6.1 That certain Factoring and Security Agreement dated of essentially even date herewith between, inter alia, BioZone Laboratories, Inc., a California corporation, and Creditor, all documents executed in connection therewith, and all amendments or renewals to or of any of the foregoing, or any other document evidencing a Guaranteed Obligation.

1.7 " **Creditor** " – See Preamble.

1.8 " **Debtor** " – BioZone Laboratories, Inc., a California corporation, and all its successors-in-interest by operation of law or otherwise, including any Trustee (as defined in the Bankruptcy Code) or debtor-in-possession, and any successor-in-interest arising out of any merger or reorganization involving such entity, whether it is the surviving or the disappearing entity.

1.9 " **Guaranteed Obligations** " –

1.9.1 All present and future obligations of Debtor to Creditor, including but not limited to obligations arising out of the Credit Documents, including interest that, but for the filing of a petition under the Bankruptcy Code with respect to Debtor, would have accrued on any such obligations, and attorneys' fees.

1.10 " **Guarantor** " – See Preamble.

1.11 " **Guaranty Opponent** " – See Section 4.2 hereof.

1.12 **"Intercreditor Agreements"** – Those certain intercreditor agreements by and among Subordinating Creditors and Creditor, each dated as of an approximately even date herewith.

1.13 **"Permitted Liens"** - Liens and security interests held by Creditor, liens and security interests held by Subordinating Creditors as permitted by the Intercreditor Agreements, and liens securing the claims or demands of materialmen, mechanics, carriers, warehousemen, and other like persons not yet due.

1.14 **"Subordinating Creditors"** – OPKO Health, Inc., Barry Honig, and Olycra Limited Partnership, and any successors or assignees thereof.

2. **GUARANTY**

2.1 **Promise to Pay and Perform** . Guarantor unconditionally and irrevocably guarantees to Creditor the prompt payment and performance of the Guaranteed Obligations whether or not the Guaranteed Obligations are found to be invalid, illegal or unenforceable, this being a guaranty of payment and not a guaranty of collection.

2.2 **Cumulative Obligations** . The obligations hereunder are in addition to any other obligations of Guarantor under any other guaranties of the indebtedness or other obligations of Debtor or any other person at any time given to Creditor. This Agreement shall not affect or invalidate any such other guaranties.

2.3 **Continuing Guaranty** . This Agreement shall remain in full force and effect notwithstanding the fact that, at any particular time, no Guaranteed Obligations may be outstanding.

2.4 **Joint and Several Obligation; Independent Obligation** . Guarantor is directly, jointly, and severally with all other guarantors of the Guaranteed Obligations liable to Creditor. The obligations of Guarantor hereunder are direct and primary and are independent of the obligations of Debtor or any other such guarantor, and a separate action may be brought against Guarantor irrespective of whether an action is brought against Debtor or any other guarantor or whether Debtor or any such other guarantor is joined in such action. Guarantor's liability hereunder shall not be contingent upon the exercise or enforcement by Creditor of any remedies it may have against Debtor or any other guarantor or the enforcement of any lien or realization upon any security Creditor may at any time possess. Any release that may be given by Creditor to Debtor or any other guarantor shall not release Guarantor.

3. **COVENANTS.**

3.1 Guarantor shall keep informed of Debtor's financial condition as well as all other circumstances that bear upon the risk of nonpayment of the Guaranteed Obligations.

3.2 Guarantor shall, from time to time, at the expense of Guarantor, promptly execute and deliver all further documents and take all further action that may be necessary, or that Creditor may reasonably request, to enable Creditor to exercise and enforce its rights and remedies hereunder.

3.3 Guarantor shall not create, incur, assume or permit to exist any non-purchase-money lien, except Permitted Liens, upon or with respect to any of its assets. Guarantor authorizes Creditor to record a record in any public records filing office advising third parties that the taking of any such lien by them may constitute the tortious interference with Creditor's rights hereunder.

3.4 Creditor may inspect any Collateral at any time upon reasonable notice.

3.5 Creditor may at any time notify any Account Debtors to make payments directly to Creditor.

4. **LIMITATION ON LIABILITY IN CERTAIN SITUATIONS.**

4.1 Notwithstanding the generality of the foregoing definition of indebtedness, the liability of each Guarantor hereunder is limited to the lesser of the following amounts minus, in either case, one dollar:

4.1.1 The lowest amount which would render this Guaranty a fraudulent conveyance under the Uniform Fraudulent Transfer Act, or other similar or analogous law or statute of the appropriate jurisdiction; and

4.1.2 The lowest amount which would render this Guaranty a fraudulent transfer under Section 548 of the Bankruptcy Code.

4.2 It is presumed that the liability of Guarantor hereunder is equal to the amount of the obligations guaranteed. Therefore, in the event that any Guarantor, or successor-in-interest thereof ("Guaranty Opponent"), shall claim that the amount of liability hereunder is less than the amount of the obligations guaranteed hereunder, the burden of proof with respect to the amount of such liability shall rest with the Guaranty Opponent, in light of the fact that the information concerning and circumstances of the financial condition of Guarantor is more readily available to and under the control of the Guaranty Opponent.

5. **GRANT OF SECURITY INTEREST.**

5.1 To secure the payment and performance in full of Guarantor's obligations hereunder, Guarantor grants to Creditor a security interest in the Collateral and all proceeds and products thereof.

6. **PAYMENTS.**

6.1 **Nature and Application of Payments.** Creditor may apply any payment with respect to the Guaranteed Obligations or any other amounts due hereunder in such order, as Creditor shall in its sole and absolute discretion determine, irrespective of any contrary instructions received from any other person.

6.2 **Indefeasible Payment; Revival** . If any portion of any payment to Creditor hereunder is set aside and repaid by Creditor for any reason after being made by Guarantor, the amount so set aside shall be revived as a Guaranteed Obligation and Guarantor shall be liable for the full amount Creditor is required to repay plus all costs and expenses (including attorneys' fees, costs, and expenses) incurred by Creditor in connection therewith **.**

6.3 **ACH Authorization** . In order to satisfy any of the Guaranteed Obligations, Guarantor authorizes Creditor to initiate electronic debit or credit entries through the ACH system to any deposit account maintained by Guarantor.

7. **REPRESENTATIONS AND WARRANTIES.**

7.1 Guarantor represents and warrants as follows (which representations and warranties shall be true, correct, and complete at all times):

7.1.1 This Agreement is not made by Guarantor in reliance on any representation or warranty, express or implied, by Creditor concerning the financial condition of Debtor, the nature, value, or extent of any security for the Guaranteed Obligations, or any other matter, and no promises have been made to Guarantor by any person to induce Guarantor to enter into this Agreement, except as set forth in this Agreement. Guarantor is presently informed of the financial condition of Debtor and of all other circumstances that a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Guaranteed Obligations.

7.1.2 The consideration received by Guarantor in connection with this Agreement is adequate and satisfactory in all respects, and represents reasonably equivalent value, to support this Agreement and Guarantor's obligations hereunder.

7.1.3 With respect to any Guarantor which is not a natural person, it:

(a) Is organized, validly existing, and in good standing under the laws of the jurisdiction of its formation;

(b) Has the power and authority and all governmental licenses, authorizations, consents, and approvals to execute, deliver, and perform its obligations hereunder;

(c) This Agreement has been authorized by all necessary action by Guarantor, and does not and will not:

(i) Contravene the terms of Guarantor's organizational documents;

(ii) Conflict with or result in any breach or contravention of, any contractual obligation to which Guarantor is a party or any order, injunction, writ, or decree of any governmental authority to which Guarantor or Guarantor's properties are subject; or

(iii) Violate any law, rule, or regulation of any governmental authority.

7.1.4 There are no actions, suits, proceedings, claims, or disputes pending, or, to the best knowledge of Guarantor, threatened or contemplated, at law, in equity, in arbitration, or before any governmental authority, against Guarantor or any of Guarantor's properties which purport to affect or pertain to this Agreement or any of the transactions contemplated hereby or thereby.

8. **WAIVERS. GUARANTOR WAIVES:**

8.1 ANY AND ALL SURETYSHIP DEFENSES, WHETHER ARISING BY CONTRACT, STATUTE OR BY OPERATION OF LAW.

8.2 Notice of (a) any adverse change in the financial condition of any Debtor, (b) any default in the performance of the Guaranteed Obligations; and (c) any other notice to which Guarantor might be entitled.

8.3 Any defense or claim arising out of (a) the release of any collateral securing the Guaranteed Obligations or (b) any fact that may increase Guarantor's risk hereunder.

8.4 Any claim of usury.

8.5 Any other defense arising by reason of any disability or other defense (other than the defense that the Guaranteed Obligations have been fully paid) of Debtor including any defense arising from any statute of limitations.

8.6 Any defense based on the invalidity, irregularity, or unenforceability of all or any part of the Guaranteed Obligations or any other circumstance which might constitute a defense of a guarantor.

8.7 Any claim or defense based on (a) the validity, legality or enforceability in whole or in part of the Guaranteed Obligations, (b) any assignment, amendment, transfer, modification, renewal, waiver, compromise, addition or supplement relating to Guaranteed Obligations, (c) any setoff, counterclaim or any circumstances which might constitute a defense or discharge of Guarantor.

8.8 Any lack of power or authority of Debtor.

8.9 Any defense to payment hereunder resulting from Creditor's releasing the Debtor or any other obligor owing the Guaranteed Obligations from their obligation to pay the Guaranteed Obligations, as well as Creditor's failure to give Guarantor notice thereof.

8.10 All Guarantor's rights of reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor.

8.11 All rights and defenses arising out of an election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against the Debtor.

9. **ACKNOWLEDGEMENTS AND AGREEMENTS.**

9.1 **Modifications to Credit Documents and Guaranteed Obligations.** Without notice to Guarantor and without affecting or impairing the obligations of Guarantor hereunder, Creditor may, compromise or settle, extend the period of duration or the time for the payment, or discharge the performance of, or may refuse to, or otherwise not enforce, or may, release any obligor of the Guaranteed Obligations or may grant other indulgences to Debtor in respect thereof, or may amend the Credit Documents, or may enforce, exchange, release, or waive any security for the Guaranteed Obligations or any guaranty of the Guaranteed Obligations.

9.2 **Subordination** . All present and future indebtedness of Debtor to Guarantor is subordinated to the payment of the Guaranteed Obligations. In this regard, no payment of any kind whatsoever shall be made with respect to such indebtedness until the Guaranteed Obligations have been indefeasibly paid in full. Any payment received by Guarantor in respect of such indebtedness shall be held by Guarantor as trustee for Creditor, and promptly paid over to Creditor on account of the Guaranteed Obligations but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Agreement. Upon request by Creditor, any notes or other instruments now or hereafter evidencing such indebtedness of Debtor to Guarantor, shall be marked with a legend that the same are subject to this Agreement or shall be delivered to Creditor for safekeeping.

9.3 **Commercially Reasonable Disposition of Collateral** . Any disposition of any collateral securing the Guaranteed Obligations shall be deemed commercially reasonable if, in the written opinion of three commercial loan officers with three or more years of workout experience each, the manner of the disposition was not inconsistent with the manner in which such commercial loan officers would have handled the disposition.

10. **NOTICES.**

10.1 All notices required to be given to Guarantor shall be deemed given upon the first to occur of (i) delivery thereof, prepaid, to the United States Postal Service or a nationally recognized overnight courier service, (ii) transmittal by electronic means to a receiver under the control of such party, or (iii) actual receipt by such party.

10.2 All notices to Creditor hereunder shall be deemed given upon actual receipt by a responsible officer of Creditor.

10.3 Notices hereunder shall be sent to the following addresses, or to such other addresses as each such party may in writing hereafter indicate:

**Guarantor**

| | |
|---|---|
| Address: | 1097 Country Coach Dr., #705<br>Henderson, NV 89002 |
| Attention: | Elliot M. Maza |
| Email address: | emaza@biozonelabs.com |

**Creditor**

| | |
|---|---|
| Address: | 90 Merrick Avenue<br>East Meadow, NY 11554 |
| Officer: | Dan Demonte, Vice President |
| Email address: | dan.demonte@midlandamericancapital.com |

11. **AMENDMENT AND WAIVER.**

11.1 Only a writing signed by all parties hereto may amend this Agreement. No failure or delay in exercising any right hereunder shall impair any such right that Creditor may have, nor shall any waiver by Creditor hereunder be deemed a waiver of any default or breach subsequently occurring. Creditor's rights and remedies herein are cumulative and not exclusive of each other or of any rights or remedies that Creditor would otherwise have.

12. **COSTS AND EXPENSES.**

12.1 Guarantor agrees to reimburse Creditor on demand for the actual costs including:

12.1.1 'Attorneys' fees, which Creditor has incurred or may incur in enforcing this Agreement or in connection with any federal or state insolvency proceeding commenced by or against Guarantor, including those (a) arising out of the automatic stay, (b) seeking dismissal or conversion of the bankruptcy proceeding or (c) opposing confirmation of Guarantor's plan thereunder.

12.1.2 Photocopying (which, if performed by Creditor's employees, shall be at the rate of $.10/page), travel, and attorneys' fees and expenses incurred in complying with any subpoena or other legal process attendant to any litigation in which Guarantor is a party.

13. **SUCCESSORS AND ASSIGNS.**

13.1 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

13.2 Creditor may assign its rights and delegate its duties hereunder in connection with an assignment of the Guaranteed Obligations. Upon such assignment, Guarantor shall be deemed to have attorned to such assignee and shall owe the same obligations to such assignee and shall accept performance hereunder by such assignee as if such assignee were Creditor.

14. **ENTIRE AGREEMENT.**

14.1 No promises of any kind have been made by Creditor or any third party to induce Guarantor to execute this Agreement. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Agreement.

15. **REVOCATION.**

15.1 Guarantor waives any right to revoke the Agreement as to future Guaranteed Obligations.

15.2 If, contrary to the express intent of this agreement, any such revocation is attempted by Guarantor:

15.2.1 It shall not be effective until thirty days after written notice thereof has been actually received by any officer of Creditor;

15.2.2 It shall not apply to any Guaranteed Obligations in existence on such date (including any subsequent continuation, extension, or renewal thereof);

15.2.3 It shall not apply to any Guaranteed Obligations made or created after such date pursuant to a commitment of Creditor which was, or is believed in good faith by Creditor to be, in existence on the date of such revocation;

15.2.4 No payment by any other guarantor or Debtor, or from any other source, prior to the date of such revocation shall reduce the obligations of Guarantor hereunder; and

15.2.5 Payment by any other Guarantor or Debtor, or from any other source shall be first applied to Guaranteed Obligations, if any, as to which the revocation by Guarantor is effective and, to the extent so applied, shall not reduce the obligations of Guarantor hereunder.

16. **CHOICE OF LAW**

16.1 This Agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the Chosen State.

17. **WAIVER OF TRIAL BY JURY.**

17.1 **IN RECOGNITION OF THE HIGHER COSTS AND DELAY WHICH MAY RESULT FROM A JURY TRIAL, THE PARTIES HERETO WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING HEREUNDER, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.**

18. **VENUE; JURISDICTION.**

18.1Any suit, action or proceeding arising hereunder, or the interpretation, performance or breach hereof, shall, if Creditor so elects, be instituted in any court sitting in the Chosen State, in the city in which Creditor's chief executive office is located, or if none, any court sitting in the Chosen State (the "Acceptable Forums"). Guarantor agrees that the Acceptable Forums are convenient to it, and submits to the jurisdiction of the Acceptable Forums and waives any and all objections to jurisdiction or venue. Should such proceeding be initiated in any other forum, Guarantor waives any right to oppose any motion or application made by Creditor to transfer such proceeding to an Acceptable Forum.

19. **SERVICE OF PROCESS.**

19.1 Guarantor agrees that Creditor may effect service of process upon Guarantor by regular mail at the address set forth herein or at such other address as may be reflected in the records of Creditor, or at the option of Creditor by service upon Guarantor's agent for the service of process.

IN WITNESS WHEREOF, Guarantor has executed this Agreement as of the date first written above.

_____ , a _____ corporation

By:
Name: _____
Title: Chief Executive Officer

**ACKNOWLEDGEMENT**

STATE OF

COUNTY OF _____

This instrument was acknowledged before me on March ___, 2013 by _____ as Chief Executive Officer of _____, a _____ corporation.

_____

Notary Public

Printed Name: _____

(Seal)

My Commission Expires:

_____

March ____, 2013

Midland American Capital Corporation
90 Merrick Avenue
East Meadow, NY 11554

Re: BioZone Laboratories, Inc. (the "Seller")

Ladies and Gentlemen:

Reference is hereby made to that certain Factoring and Security Agreement ("the Factoring Agreement"), dated as of an approximately even date herewith, by and among Seller and Midland American Capital Corporation. All capitalized terms not otherwise defined herein shall have the meaning ascribed to such term in the Factoring Agreement.

To induce you to purchase accounts of Seller the undersigned hereby warrants and represents to you as follows:

1. All Seller's accounts which have been or will be reported or sold to you by or on behalf of Seller and in which you hold a security interest ("Accounts"), whether such reports are in the form of Schedules of Accounts, Assignment Schedules collateral reports or financial statements, (i) are and will remain genuine and in all respects what they purport to be, and (ii) will represent bona fide obligations of Seller's customers arising out of the sale and delivery of merchandise sold by the Seller (the "Sold Goods") or the rendition of services, or both, in the ordinary course of its business in accordance with and in full and complete performance of customer's order therefor.

2. All original proceeds of the Accounts received by Seller will be held in trust for you and will immediately be forwarded to you upon receipt, in kind, in accordance with the terms of any agreements between you and the Seller (the "Agreements").

3. None of the Accounts will be the subject of any offsets, defenses or counterclaims of any nature whatsoever, and Seller will not in any way impede or interfere with the normal collection and payment of the Accounts.

4. Seller's assets are presently worth more than the sum of its debts, excluding debts owed to Subordinating Creditors, and Seller is able to pay its debts as they become due.

5. The Sold Goods will be up to the point of sale, the sole property of Seller, and the Accounts and Sold Goods are and will remain free and clear of all liens and security interests, except Permitted Liens.

6. The due dates of the Accounts will be as reported to you by the Seller.

7. Seller will promptly report to you all disputes, rejections, returns and re-sales of Sold Goods and all credits allowed by the Seller against any Account.

8. All reports that you receive from the Seller, including but not limited to those concerning its Accounts, will be true and accurate except for minor inadvertent errors.

9. Seller will not sell its inventory except in the ordinary course of business.

10. All purchase orders submitted by the Seller to you, whether issued to or by the Seller, will be complete, valid, and in full force and effect, and amendments thereto will be immediately reported to you by the Seller.

11. All inspection results submitted by the Seller to you, whether issued to or by the Seller, will be complete, accurate and genuine.

The undersigned indemnifies you and holds you harmless from any direct, indirect, or consequential damage of loss which you may sustain as a result of the breach of any statement contained herein or of your reliance (whether or not such reliance was reasonable) upon any misstatement (whether or not intentional), fraud, deceit or criminal act on the part of any officer, employee, or agent of the Seller, or any costs (including reasonable attorneys' fees and expenses) incurred by you in the enforcement of any rights granted to you hereunder. All such sums will be paid by the undersigned to you on demand.

Any action arising hereunder shall, if you so elect, be instituted in any court sitting in the state in which your chief executive office is located (the "Chosen State"), and in the city in which your chief executive office is located, or if none, any court sitting in the Chosen State (the "Acceptable Forums"). It is agreed that the Acceptable Forums are convenient, and the undersigned submits to such jurisdiction and waives all objections to jurisdiction or venue. Should such proceeding be initiated in any other forum, the undersigned we waives any right to oppose any motion to transfer such proceeding to an Acceptable Forum.

Nothing herein contained shall be in any way impaired or affected by any change in or amendment of any of the Agreements.

In the event that either of us finds it necessary to retain counsel in connection with the interpretation, defense, or enforcement of this agreement, the prevailing party shall recover its reasonable attorney's fees and expenses from the unsuccessful party. It shall be presumed (subject to rebuttal only by the introduction of competent evidence to the contrary) that the amount recoverable is the amount billed to the

prevailing party by its counsel and that such amount will be reasonable if based on the billing rates charged to the prevailing party by its counsel in similar matters.

Notarial acknowledgement:

Very truly yours,

_____

**INTERCREDITOR AGREEMENT**

This INTERCREDITOR AGREEMENT, dated as of March ___, 2013 (this "Agreement"), is among _____ (the "Subordinating Creditor"), BioZone Pharmaceuticals, Inc. (the "Debtor") and MIDLAND AMERICAN CAPITAL CORPORATION (the "Senior Creditor").

**RECITALS**

A. The Senior Creditor has or expects to acquire a security interest in assets of the Debtor in which the Subordinating Creditor has an interest, including but not limited to the Senior Creditor Collateral.

B. The Debtor and Subordinating Creditor are parties to the Subordinating Creditor Agreements.

C. The Creditors are executing this Agreement to set forth their lien priorities with respect to the Senior Creditor Collateral.

NOW, THEREFORE, in consideration of the premises, and intending to be legally bound hereby, the Creditors hereby agree as follows:

**AGREEMENT**

1. **D EFINITIONS .** The following terms used herein shall have the following meaning. All capitalized terms not herein defined shall have the meaning set forth in the Uniform Commercial Code **:**

1.1 " **Bankruptcy Code** " – Title 11 of the United States Code.

1.2 " **Chosen State** " – New York.

1.3 " **Creditors** " –The Subordinating Creditor and the Senior Creditor.

1.4 " **Debtor** " – See Preamble.

1.5 " **Guarantor** " – Any entity which has guaranteed any portion of the Senior Creditor Obligations or the Subordinating Creditor Obligations.

1.6 " **Party** " – Each of the Subordinating Creditor, the Debtor, and the Senior Creditor.

1.7 " **Senior Creditor** " – See preamble.

1.8 " **Senior Creditor Collateral** " - All Debtor's present and future Accounts, Instruments, Documents, Chattel Paper, Inventory, Equipment, Intellectual Property and General Intangibles and returned goods and the direct and indirect proceeds thereof.

1.9 " **Senior Creditor Obligations** " - Obligations of the Debtor to the Senior Creditor secured by the Senior Creditor Collateral.

1.10 " **Subordinating Creditor** " – See Preamble.

1.11 **"Subordinating Creditor Agreements"** – The agreement(s) listed in Exhibit A.

1.12 " **Subordinating Creditor Obligations** " – Indebtedness owed by the Debtor to the Subordinating Creditor secured by Senior Creditor Collateral.

2. **PRIORITY .** Notwithstanding the terms or provisions of any agreement or arrangement which either Creditor may now or hereafter have with the Debtor or any rule of law, and irrespective of the time, order, or method of attachment or perfection of any security interest or the recordation or other filing in any public record of any financing statement, the Senior Creditor Obligations and any security interests in the Senior Creditor Collateral held by the Senior Creditor, whether or not perfected, are and shall remain senior to the Subordinating Creditor Obligations, security interest therein now or hereafter held by the Subordinating Creditor, and any guaranties now or hereafter executed by any Guarantor.

3. **ENFORCEMENT OF SECURITY INTEREST .**

3.1 The Subordinating Creditor shall have no right to take any action with respect to the Senior Creditor Collateral, whether by judicial or non-judicial foreclosure, notification to the Debtor's account debtors, the seeking of the appointment of a receiver for any portion of the Debtor's assets, setoff, or otherwise, unless and until all Senior Creditor Obligations have been fully and indefeasibly paid.

3.2 If the Subordinating Creditor, in contravention of the terms of this Agreement, shall commence prosecute, or participate in any suit, action, or proceeding against the Debtor or initiate any foreclosure sale or proceeding or any other action to enforce its lien on any of the Senior Creditor Collateral, then the Debtor may interpose as a defense or plead the making of this Agreement, and the Senior Creditor may intervene and impose such defense or plea in its name or in the name of the Debtor. If the Subordinating Creditor, in contravention of the terms of this Agreement, shall attempt to enforce any remedies prohibited by this Agreement, then the Senior Creditor or the Debtor may, by virtue of this Agreement, restrain the enforcement thereof in the name of the Senior Creditor or in the name of the Debtor.

3.3 If Senior Creditor, pursuant to the rights granted to the Senior Creditor under the terms of this Agreement or applicable law, shall dispose of any or all of the Senior Creditor Collateral such disposition shall be deemed commercially reasonable if, in the written opinion of three (3) commercial loan officers with three (3) or more years of workout experience each, the manner of the disposition is not inconsistent with the manner in which such commercial loan officers would have handled the disposition.

4. **PROCEEDS OF COLLATERAL.**

4.1 Any proceeds of Collateral, or proceeds of proceeds, received by a Creditor holding a security interest which, pursuant to this Agreement, is subordinate to the security interest of the other Creditor shall be, immediately upon discovery, paid to the other Creditor holding the senior security interest

4.2. Any such sums not paid when due shall accrue a late charge at the rate of 8% per annum.

5. **SUBORDINATING CREDITOR COVENANTS AND WARRANTIES** . The subordinating creditor warrants covenants and represents that it:

5.1 Is the owner of the Subordinating Creditor Obligations, free and clear of the claims of any other entity;

5.2. Is the secured party named in each Initial Financing Statement listed on the attached Exhibit B.

5.3. Will not, at any time while this Agreement is in effect, sell, transfer, pledge, assign, hypothecate, or otherwise dispose of any of all or the Subordinating Creditor Obligations to any entity other than one which agrees in a writing, satisfactory in form and substance to the Senior Creditor (the "Transfer Document"), to become a party hereto and to succeed to the rights and to be bound by all of the obligations of the Subordinating Creditor hereunder. In the case of any such proposed disposition by the Subordinating Creditor, it will notify the Senior Creditor at least (10) ten days prior to the date of any of such intended disposition and include with such notice a copy of the proposed Transfer Document.

5.4 Will, at the request of Senior Creditor, promptly release any lien and security interest it has on any Senior Creditor Collateral to facilitate its transfer or sale so long as the proceeds thereof are applied against the Senior Creditor Obligations and any excess is paid to the Subordinating Creditor to be applied against the Subordinating Creditor Obligations.

5.5. Will not withhold its consent to any sale of any of the Senior Creditor Collateral by the Debtor free and clear of the liens of Senior Creditor and Subordinating Creditor.

5.6 Waives any rights it may have to claim that the enforceability of this Agreement may be affected by any subsequent modification, release, extension, or other change, material or otherwise, in the Senior Creditor Obligations or the Senior Creditor Collateral.

5.7 Will reasonably cooperate with Senior Creditor in notifying the Debtor's Account Debtors that proceeds of Accounts should be paid to Senior Creditor and not to Subordinating Creditor.

6. **REMEDY FOR BREACH.** Any breach hereof is likely to cause cause irreparable damage to the aggrieved party. Therefore, the relief to which such party shall be entitled in such event shall included, but not be limited to, (a) a mandatory injunction for specific performance, (b) judicial relief to prevent a violation of any of the provisions of this Agreement, (c) damages, and (d) any other relief to which it may be entitled at law or in equity.

7. **AMENDMENT OF SUBORDINATING CREDITOR AGREEMENTS.**

7.1 This Agreement shall be deemed an amendment to the Subordinating Creditor Agreements, in which (i) Subordinating Creditor consents to the creation and satisfaction of the Senior Creditor Obligations and creation of the security interest in the Senior Creditor Collateral, (ii) the creation of the security interest in the Senior Creditor Collateral shall not be considered an event of default under the Subordinating Creditor Agreements, and (iii) cannot be further amended to affect the rights of Senior Creditor hereunder.

7.2 The signature of Senior Creditor shall not be required for any further amendment of the Subordinating Creditor Agreements.

8. **EFFECT OF BANKRUPTCY.**

8.1 This Agreement shall remain in full force and effect notwithstanding the filing of a petition for relief by or against the Debtor under the Bankruptcy Code and, shall apply with full force and effect with respect to all Senior Creditor Collateral acquired by the Debtor, and obligations incurred by the Debtor to the Subordinating Creditor, subsequent to the date of any such petition.

8.2 If the Debtor shall become subject to a proceeding under the Bankruptcy Code and if Senior Creditor shall permit the use of cash collateral or provides financing to Debtor under either Section 363 or Section 364 of the Bankruptcy Code:

8.2.1 Adequate notice to Subordinating Creditor shall have been provided for such financing if Subordinating Creditor receives notice one (1) business day prior to the entry of the order approving such financing; and

8.2.2 No objection will be raised by Subordinating Creditor to any such financing on the ground of a failure to provide adequate protection for Subordinating Creditor's security interest in the Senior Creditor Collateral.

9. **NO DUTY TO PROVIDE FINANCIAL ACCOMODATIONS .** Nothing contained herein or in any prior agreement or understanding shall be deemed to create any duty on the part of either party to extend or continue to extend financial accommodations to the Debtor.

10. **WAIVER OF MARSHALING.** The Subordinating Creditor irrevocably waives any right to compel the Senior Creditor to marshal assets of the Debtor.

11. **CROSS-DEFAULT.** Debtor agrees that default in connection with the Subordinating Creditor Obligations shall constitute default in connection with the Senior Creditor Obligations, and vice versa.

12. **CHOICE OF LAW .** This Agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the Chosen State.

13. **AMENDMENT AND WAIVER.** This Agreement may be amended only by a writing signed by all parties hereto. No failure to exercise and no delay in exercising any right hereunder shall impair any such right that Senior Creditor may have, nor shall any waiver by Senior Creditor hereunder be deemed a waiver of any default or breach subsequently occurring. Senior Creditor's rights and remedies herein are cumulative and not exclusive of each other or of any rights or remedies that Senior Creditor would otherwise have.

14. **CONSTRUCTION.** T his Agreement and all agreements relating to the subject matter hereof is the product of negotiation and preparation by and among each Party and its respective attorneys.

15. **BENEFITS OF THIS AGREEMENT.** This Agreement is solely for the benefit of and shall bind the Creditors and their respective successors and assigns and no other entity shall have any right, benefit, priority, or interest hereunder.

16. **T ERM .** Unless otherwise terminated as set forth in this section, this Agreement shall continue so long as the Senior Creditor holds a security interest in any portion of the Senior Creditor Collateral.

17. **ENFORCEMENT.** In the event that any party finds it necessary to retain counsel in connection with the interpretation, defense or enforcement of this Agreement, the prevailing party shall recover its reasonable attorney's fees and expenses from the unsuccessful party. It shall be presumed (subject to rebuttal only by the introduction of competent evidence to the contrary) that the amount recoverable is the amount billed to the prevailing party by its counsel in similar matters.

18. **COUNTERPARTS.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement, and any Party delivering such an executed counterpart of the signature page to this Agreement by facsimile to any other party shall thereafter also promptly deliver a manually executed counterpart of this Agreement to such other Party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Agreement.

19. **NOTICE**. All notices required to be given to either party hereunder shall be deemed given upon the first to occur of: (a) deposit thereof in a receptacle under the control of the United States Postal Service; (b) transmittal by facsimile to the facsimile numbers set forth below; or (c) actual receipt by the party to whom notice is being given, or an employee or agent of thereof.

**Subordinating Creditor**

Address:

Attention:
Facsimile number:

**Debtor**

| | |
|---|---|
| | BioZone Pharmaceuticals, Inc. |
| Address: | 580 Garcia Avenue |
| | Pittsburg, CA 94565 |
| Attention: | Elliot Maza, Chief Executive Officer |
| Facsimile number: | 925-473-1001 |

**Senior Creditor**

| | |
|---|---|
| Address: | 90 Merrick Avenue |
| | East Meadow, NY 11554 |
| Attention: | Richard Loeffler, Executive Vice President |
| Facsimile number: | 866-659-8826 |

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

Subordinating Creditor:

By:
Name:

Debtor:

BioZone Pharmaceuticals, Inc.

By:
Elliott Maza
Chief Executive Officer

Senior Creditor: Midland American Capital Corporation

By:
Tracey Turzinski
Executive Vice President

**EXHIBIT A**

Secured Convertible Promissory Note issued by Biozone Pharmaceuticals, Inc. to Barry Honig in the principal amount of $500,000 dated February 27, 2012

Securities Purchase Agreement dated as of February 27, 2012 between Biozone Pharmaceuticals, Inc. and Barry Honig

Pledge and Security Agreement dated as of February 24, 2012 between Biozone Pharmaceuticals, Inc. and Opko Health, Inc.

Secured Convertible Promissory Note issued by Biozone Pharmaceuticals, Inc. to Barry Honig in the principal amount of $1,000,000 dated March 12, 2012

**EXHIBIT B**

UCC Financing Statement (Document No. 2012008658-8) filed 3/30/2012

**EXHIBIT 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Elliot Maza, certify that:

(1) I have reviewed this annual report on Form 10-K of BioZone Pharmacueticals, Inc. for the fiscal year ended December 31, 2012;

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

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

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2013

/s/ Elliot Maza

Elliot Maza
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

**EXHIBIT 32.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S. C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of BioZone Pharmaceuticals, Inc., (the ‘‘Company’’) on Form 10-K for year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the ‘‘Report’’), I, Elliot Maza, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: April 1, 2013

/s/ Elliot Maza

Elliot Maza
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)