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

FORM 8-K

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

Date of Report (Date of earliest event reported): **January 19, 2007**

HEALTHCARE ACQUISITION CORP.

(Exact Name of Registrant as Specified in Charter)

Delaware	**001-32587**	**20-2726770**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2116 Financial Center 666 Walnut Street	
Des Moines, Iowa	**50309**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(515) 244-5746**

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

x Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ADDITIONAL INFORMATION AND FORWARD-LOOKING STATEMENTS

HEALTHCARE ACQUISITION CORP. ("HAQ") CLAIMS THE PROTECTION OF THE SAFE HARBOR FOR "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS ARE STATEMENTS THAT ARE NOT HISTORICAL FACTS. SUCH FORWARD-LOOKING STATEMENTS, BASED UPON THE CURRENT BELIEFS AND EXPECTATIONS OF MANAGEMENT OF HAQ AND PHARMATHENE REGARDING, AMONG OTHER THINGS, THE BUSINESS OF PHARMATHENE AND THE MERGER, ARE SUBJECT TO RISKS AND UNCERTAINTIES, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER FROM THE FORWARD-LOOKING STATEMENTS. THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE ACTUAL RESULTS TO DIFFER FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS: BUSINESS CONDITIONS IN THE U.S. AND ABROAD; CHANGING INTERPRETATIONS OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; OUTCOMES OF GOVERNMENT REVIEWS; INQUIRIES AND INVESTIGATIONS AND RELATED LITIGATION; CONTINUED COMPLIANCE WITH GOVERNMENT REGULATIONS; LEGISLATION OR REGULATORY ENVIRONMENTS, REQUIREMENTS OR CHANGES ADVERSELY AFFECTING THE BUSINESS IN WHICH PHARMATHENE IS ENGAGED; MANAGEMENT OF RAPID GROWTH; INTENSITY OF COMPETITION; GENERAL ECONOMIC CONDITIONS; AS WELL AS OTHER RELEVANT RISKS DETAILED IN HAQ'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION. THE INFORMATION SET FORTH HEREIN SHOULD BE READ IN LIGHT OF SUCH RISKS. NEITHER HAQ NOR PHARMATHENE ASSUMES ANY OBLIGATION TO UPDATE THE INFORMATION CONTAINED IN THIS REPORT.

HAQ STOCKHOLDERS ARE URGED TO READ THE PROXY STATEMENT REGARDING THE PROPOSED TRANSACTION WHEN IT BECOMES AVAILABLE AS WELL AS THE OTHER INFORMATION NOTED BELOW BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION.

COMMENCING SHORTLY AFTER THE FILING OF THIS CURRENT REPORT ON FORM 8-K, HEALTHCARE ACQUISITION CORP. ("HAQ") INTENDS TO HOLD PRESENTATIONS FOR CERTAIN OF ITS STOCKHOLDERS, AS WELL AS OTHER PERSONS WHO MIGHT BE INTERESTED IN PURCHASING HAQ'S SECURITIES, REGARDING ITS PROPOSED BUSINESS COMBINATION WITH PHARMATHENE, INC. AND ITS SUBSIDIARY (COLLECTIVELY, "PHARMATHENE"), AS DESCRIBED IN THIS REPORT. THIS CURRENT REPORT ON FORM 8-K WILL BE DISTRIBUTED TO PARTICIPANTS AT SUCH PRESENTATIONS.

HAQ AND ITS DIRECTORS AND EXECUTIVE OFFICERS AS WELL AS PHARMATHENE AND ITS DIRECTORS AND EXECUTIVE OFFICERS MAY BE DEEMED TO BE PARTICIPANTS IN THE SOLICIATION OF PROXIES FOR THE SPECIAL MEETING OF HAQ'S STOCKHOLDERS TO BE HELD TO APPROVE THE PROPOSED BUSINESS COMBINATION. STOCKHOLDERS OF HAQ AND OTHER INTERESTED PERSONS ARE URGED TO READ, WHEN AVAILABLE, HAQ'S PRELIMINARY PROXY STATEMENT AND DEFINITIVE PROXY STATEMENT IN CONNECTION WITH HAQ'S SOLICITATION OF PROXIES FOR THE SPECIAL MEETING BECAUSE THESE PROXY STATEMENTS WILL CONTAIN IMPORTANT INFORMATION. SUCH PERSONS CAN ALSO READ HAQ'S FINAL PROSPECTUS, DATED JULY 28, 2005, ITS REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 AND OTHER REPORTS AS FILED WITH THE SEC, FOR A DESCRIPTION OF THE SECURITY HOLDINGS OF HAQ'S OFFICERS AND DIRECTORS AND THEIR RESPECTIVE INTERESTS IN THE SUCCESSFUL CONSUMMATION OF THIS BUSINESS COMBINATION. THE DEFINITIVE PROXY STATEMENT OF HAQ WILL BE MAILED TO STOCKHOLDERS AS OF A RECORD DATE TO BE ESTABLISHED FOR VOTING ON THE PROPOSED BUSINESS COMBINATION. STOCKHOLDERS WILL ALSO BE ABLE TO OBTAIN A COPY OF THE DEFINITIVE PROXY STATEMENT, WITHOUT CHARGE, BY DIRECTING A REQUEST TO HAQ AT: **2116 FINANCIAL CENTER, 666 WALNUT STREET, DES MOINES, IOWA 50309**. THE PRELIMINARY PROXY STATEMENT AND DEFINITIVE PROXY STATEMENT, ONCE AVAILABLE, AND THE FINAL PROSPECTUS AND OTHER SEC FILINGS OF HAQ CAN ALSO BE OBTAINED, WITHOUT CHARGE, AT THE SECURITIES AND EXCHANGE COMMISSION'S INTERNET SITE (http://www.sec.gov).

PHARMATHENE'S FINANCIAL INFORMATION AND DATA CONTAINED HEREIN AND IN THE EXHIBITS HERETO IS UNAUDITED AND PREPARED BY PHARMATHENE AS A PRIVATE COMPANY, AND DO NOT CONFORM TO SEC REGULATION S-X. ACCORDINGLY, SUCH INFORMATION AND DATA WILL BE ADJUSTED AND PRESENTED DIFFERENTLY IN HAQ'S PROXY STATEMENT TO SOLICIT STOCKHOLDER APPROVAL OF THE ACQUISITION.

Item 1.01 Entry into a Material Definitive Agreement.

On January 19, 2007, Healthcare Acquisition Corp., a Delaware corporation ("HAQ"), and its wholly-owned subsidiary, PAI Acquisition Corp., also a Delaware corporation ("PAI"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with PharmAthene, Inc., a Delaware corporation ("PharmAthene"), pursuant to which PAI will merge into PharmAthene and PharmAthene will become a wholly-owned subsidiary of HAQ. Following consummation of the merger, it is anticipated that HAQ will change its name to PharmAthene, Inc. Because HAQ has no other operating business, following the merger, PharmAthene will effectively become a public company. PharmAthene is headquartered in Annapolis, Maryland, and has a subsidiary located in Montreal, Canada.

Under the terms of HAQ's amended and restated certificate of incorporation, because HAQ has entered into the Merger Agreement, HAQ now has until August 3, 2007 to complete its business combination, having satisfied the criteria for extension of time to complete a transaction set forth in its amended and restated certificate of incorporation.

Merger Consideration and Treatment of Options and Warrants

The Merger Agreement without exhibits is attached hereto as Exhibit 2.1 and should be referred to when reading the following summary. You are urged to read the entire Merger Agreement and the other exhibits attached hereto as the following is a summary only.

The Merger Agreement provides that by virtue of the merger, and subject to certain adjustments as hereafter described, PharmAthene stockholders and noteholders will receive:

(i) an aggregate of 12,500,000 shares of HAQ common stock;
(ii) $12,500,000 in 8% convertible notes of HAQ in exchange for $11,800,000 of currently-outstanding 8% convertible PharmAthene notes, pursuant to a Note Exchange Agreement; and
(iii) up to $10,000,000 in milestone payments (if certain conditions are met),

in exchange for all of the issued and outstanding capital stock of PharmAthene. HAQ is also assuming certain outstanding vested and unvested options and warrants, which shall be exchanged into options and warrants of HAQ on economically equivalent terms. The 12,500,000 shares of HAQ common stock issued as merger consideration will not increase due to the vesting, issuance or exercise of any options or warrants of PharmAthene or the assumption of the PharmAthene options and warrants and the actual number of shares of HAQ common stock ultimately issued may be less to the extent options and warrants are not exercised.

A requisite majority of PharmAthene's securityholders have consented to the merger and the merger agreement and have agreed among themselves to the allocation of the merger consideration. A form of the Note Exchange Agreement, to be executed at closing, and a form of the 8% Convertible Note, to be issued at closing, have substantially been agreed upon and are attached hereto as Exhibits 4.1 and 4.2, respectively. Further, the stockholders and note holders of PharmAthene have agreed to a lockup of the shares issuable to them in the merger under which lockup 50% of the shares will be released after six months and the remaining shares will be released after 12 months. HAQ has agreed to register the shares issuable to the PharmaAthen stockholders and note holders following the closing pursuant to the terms of a Registration Rights Agreement, the form of which is filed as Exhibit 10.1.

The 12,500,000 shares of HAQ common stock issuable as merger consideration will be subject to adjustment in the following circumstances:

(i) to the extent that the stockholders of HAQ owning more than 5% of the outstanding HAQ common stock exercise their conversion rights under HAQ's amended and restated certificate of incorporation, the number of shares of HAQ common stock comprising the stock consideration shall be adjusted upward by the product of (x) the number (as a percentage) that is the difference between the percentage of HAQ common stock that is converted and 5% and (y) 2.25 million; and

(ii) if, prior to the date that the proxy statement filed by HAQ in connection with the merger is approved by the SEC, PharmAthene issues additional shares of its common stock (or any equity or debt securities convertible into common stock) for cash consideration of up to $5 million (subject to the limitation that the securities of PharmAthene issued to the purchasers thereof will not convert into more than 625,000 shares of HAQ common stock in the merger, which number of shares would be proportionately reduced to reflect the sale of less than $5 million), then the number of shares of HAQ common stock comprising the stock consideration shall be increased by the number of shares of HAQ common stock into which the shares so issued will be converted as a consequence of the merger.

Amendment to HAQ's Charter

The Merger Agreement provides that HAQ shall request approval from its stockholders to amend its certificate of incorporation to, among other things, (i) effect the name change to PharmAthene, Inc., (ii) delete the preamble and SPAC-specific portions of the charter from and after the closing and (iii) provide that, for so long as at least 30% of the 8% convertible notes issued in the merger remain outstanding, the number of directors of HAQ shall not exceed seven, the number of directors constituting the committees, including the corporate governance and nominating committee and the compensation committee (or committees performing similar functions) of the board shall not exceed three, and the holders of such 8% convertible notes shall have the right, as a separate class (and notwithstanding the existence of less than three such holders at any given time), to (a) elect three members to the board of directors of HAQ and, (b) to the extent they elect to fill such committee positions, appoint two of the three members of such committees of the board.

New Incentive Plan

HAQ has agreed to seek approval of its stockholders to establish a new incentive plan, including stock options, containing terms no less favorable to holders of outstanding employee options of PharmAthene and HAQ shall reserve for issuance under such plan a sufficient number of shares of HAQ common stock for delivery upon exercise of outstanding employee options assumed by HAQ under the Merger Agreement, as well as an additional 3,000,000 shares of HAQ common stock.

Representations, Warranties and Covenants

The Merger Agreement contains representations and warranties of HAQ, PAI, and PharmAthene, as applicable, relating to, among other things, (a) proper corporate organization and similar corporate matters, (b) capitalization, (c) the authorization, performance and enforceability of the Merger Agreement, (d) financial statements, (e) taxes, (f) absence of undisclosed liabilities, (g) real and personal property interests, (h) material contracts, (i) title to assets, (j) absence of certain changes, (k) employees and employee benefits matters, (l) compliance with applicable laws, (m) absence of litigation, (n) environmental matters, (o) regulatory matters, (o) compensation matters and (p) insurance.

Subject to specified exceptions, each of HAQ and PharmAthene has agreed to continue to operate its respective business in the ordinary course prior to the closing of the merger. Additionally, the parties have agreed, among other things, to (i) cooperate in the preparation of filing with the SEC of proxy materials for use by HAQ in the solicitation of its stockholders for approval of the Merger Agreement and the merger; (ii) obtain all necessary approvals for the merger; (ii) protect confidential information and maintain the confidentiality of the other's proprietary information; and (iii) until termination of the Merger Agreement (except as discussed below), not to solicit or accept an alternative Acquisition Proposal, as such term is defined in the Merger Agreement.

Indemnification

The Merger Agreement provides for indemnification of HAQ by the security holders of PharmAthene for any losses suffered as a consequence of violation, breach or misrepresentation of any representation, warranty or covenants of PharmAthene, provided, however that the sole and exclusive source of the payment of any indemnification obligations being limited to 1,375,000 shares of HAQ common stock otherwise issuable as part of the merger consideration which are to be deposited into escrow at the closing of the merger, to be held during the period ending one year from the closing, all in accordance with the terms and conditions of an escrow agreement to be entered into at the closing between a representative of HAQ, a representative of the PharmAthene stockholders and a designated escrow agent. The balance of any share amounts remaining in escrow against which no claims have been made shall be distributed to PharmAthene's stockholders at the expiration of the 12-month escrow period following the closing. For indemnification purposes, the shares of HAQ common stock held in escrow shall be valued at the average reported last sales price for the ten (10) trading days ending on the last day prior to the date that a claim for indemnification is publicly disclosed (or if there is no public disclosure, the date on which an indemnification notice is received) and the ten (10) trading days after such date.

Conditions to Closing of the Merger

The obligations of HAQ to consummate the merger are subject to various closing conditions, including, among others: (i) that the HAQ stockholders shall have approved the Merger Agreement and the transactions contemplated by the Merger Agreement and the holders of not more than twenty percent (20%) of HAQ's shares issued in HAQ's initial public offering and outstanding immediately before the closing shall have exercised their rights to convert their shares into a pro rata share of the trust fund rather than approve the merger; (ii) that David Wright, President and Chief Executive Officer of PharmAthene shall have entered into an employment agreement with HAQ upon mutually acceptable terms; (iii) that all side agreements relating to PharmAthene's capital stock and notes and that of its Canadian subsidiary previously entered into by PharmAthene shall have been terminated; (iv) that the requisite majority of the holders of PharmAthene capital stock and all of the holders of then outstanding notes of PharmAthene shall have executed and delivered an allocation agreement and the Note Exchange Agreement; (v) that lockup agreements shall have been entered into by substantially all of PharmAthene's stockholders and note holders; (vi) that no material adverse change shall have occurred; (vii) that no governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which has the effect of making the merger illegal or otherwise prohibiting consummation of the merger substantially on the terms contemplated by the merger agreement; (viii) the absence of any action, suit or proceeding challenging or preventing the merger and (ix) all notes previously issued by PharmAthene have been terminated.

The obligations of PharmAthene to consummate the merger are subject to various closing conditions broadly similar to those of HAQ, as well as the condition that HAQ's common stock issuable as merger consideration will be listed for trading on the AMEX, that the merger will be treated as a reorganization for federal income tax purposes, and that HAQ's charter shall have been amended as described above.

Termination

Pursuant to the terms of the Merger Agreement, the Merger Agreement may be terminated at any time prior to the closing, as follows:

(i) by mutual written consent of HAQ, PAI and PharmAthene;

(ii) by either HAQ or PharmAthene if (a) a permanent injunction or other order prohibiting the merger shall have become final and nonappealable or (b) if during any 15-day trading period following the execution of the merger agreement and before its effective date, the average trading price of HAQ's publicly-traded warrants is equal to or lower than $0.20 per warrant;

(iii) by PharmAthene, if (a) prior to the closing there shall have been a material breach of any representation, warranty, covenant or agreement on the part of HAQ or PAI contained in the merger agreement or any representation or warranty of HAQ or PAI shall have become untrue after the date of the merger agreement, which breach or untrue representation or warranty (A) would, individually or in the aggregate with all other such breaches and untrue representations and warranties, give rise to the failure of a condition and (B) is incapable of being cured prior to the closing by HAQ or is not cured within thirty (30) days of notice of such breach, (ii) any of the conditions to closing shall have become incapable of fulfillment; (iii) HAQ has not filed its preliminary proxy statement with the SEC by February 14, 2007 through no fault of PharmAthene or such proxy statement has not been approved by the SEC by July 10, 2007; (iv) HAQ has not held its special meeting to approve the merger within thirty-five (35) days of approval of the proxy statement by the SEC; (v) HAQ's board has withdrawn or changed its recommendation to its stockholders regarding the merger; or (vi) more than 19.99% of the holders of the HAQ's publicly-traded common stock entitled to vote on the merger elect to convert such shares into cash from the trust fund;

(iv) By HAQ, if (i) prior to the closing there shall have been a material breach of any representation, warranty, covenant or agreement on the part of PharmAthene contained in the merger agreement or any representation or warranty of PharmAthene shall have become untrue after the date of the merger agreement, which breach or untrue representation or warranty (A) would, individually or in the aggregate with all other such breaches and untrue representations and warranties, give rise to the failure of a condition and (B) is incapable of being cured prior to the closing by PharmAthene or is not cured within thirty (30) days of notice of such breach; or (ii) any of the conditions to closing shall have become incapable of fulfillment; .

If HAQ terminates the agreement due to a material breach of any representation, warranty, covenant or agreement on the part of PharmAthene, or if certain of the conditions to closing shall have become incapable of fulfillment (through the fault of PharmAthene), HAQ shall be entitled to a termination fee of $250,000.

If PharmAthene terminates the agreement as a result of a material breach of any representation, warranty, covenant or agreement on the part of HAQ or PAI; or if any of the conditions to closing shall have become incapable of fulfillment; or if HAQ has not filed its preliminary proxy statement with the SEC by February 14, 2007 through no fault of PharmAthene or if such proxy statement has not been approved by the SEC by July 10, 2007; or if HAQ has not held its special meeting to approve the merger within thirty-five (35) days of approval of the proxy statement by the SEC; or if HAQ's board has withdrawn or changed its recommendation to its stockholders regarding the merger, PharmAthene shall be entitled to a termination fee of $250,000 or such lesser amount as remains outside of HAQ's trust fund.

Bear, Stearns & Co. Inc. served as financial advisor to PharmAthene in connection with the transaction and Maxim Group LLC served as financial advisor to HAQ.

McCarter & English is serving as counsel to PharmAthene in the transaction. Ellenoff Grossman & Schole LLP is acting as counsel to HAQ.

Item 5.01 Change in Control of Registrant

As a result of the arrangements regarding the election of HAQ directors who will serve as such after the closing of the merger that are described above in Item 1.01, and the issuance of the shares of Common stock as part of the merger consideration, a change in control of HAQ will occur as a result of the merger. As such event will take place more than 60 days after the filing of this Report and the amounts of HAQ common stock to be beneficially owned by the directors immediately after the merger cannot yet be determined, HAQ is at this time unable to provide information regarding the beneficial ownership of HAQ common stock by those persons who will be its directors immediately after the merger. Such information will be provided in the proxy statement that HAQ will distribute to its stockholders to solicit their vote to approve the merger and the other proposals that will be presented to them for consideration in connection with the merger.

Item 7.01 Regulation FD Disclosure

The Business of PharmAthene

Overview

PharmAthene is in the business of discovering and developing novel human therapeutics and prophylactics for the treatment and prevention of morbidity and mortality from exposure to biological and chemical weapons. PharmAthene has two products currently in development, Valortim™, a human monoclonal antibody for the prevention and treatment of anthrax infection, and Protexia®, a bioscavenger for the treatment of organophosphate nerve agent poisoning.

The U.S. government has identified certain indications as priorities for biodefense funding, including anthrax, nerve agent exposure, smallpox, botulinum toxin and radiation. PharmAthene is pursuing the development of products in the areas of anthrax and nerve agent exposure. Currently, the FDA has an expedited and simplified mechanism for regulatory approval of biodefense drugs. Phase I human clinical trials are required to show reasonable safety, but efficacy only needs to be demonstrated in two animal species. In addition, the U.S. government has enacted laws and established processes to permit the sale of bioterrorism drugs to government organizations prior to obtaining regulatory approval.

PharmAthene's lead product candidate, Valortim, is a fully human monoclonal antibody designed to protect against and treat inhalation anthrax infection, the most lethal form of illness in humans caused by the *Bacillus anthracis* bacterium. PharmAthene is co-developing Valortim with Medarex, Inc., a biopharmaceutical company that specializes in developing fully human antibody-based therapeutic products and will share with Medarex any profits derived from sales of Valortim. Preclinical trials on animal models have demonstrated that Valortim is highly efficacious as both a prophylaxis and a therapeutic for inhalation anthrax infection in some animal models. PharmAthene and Medarex have completed dosing of healthy volunteers in a Phase I open-label, dose-escalation clinical trial to evaluate the safety, tolerability, immunogenicity, and pharmacokinetics of a single dose of Valortim administered intravenously or intramuscularly. No drug-related serious adverse events have been reported. Final results from the Phase I trial were presented at the Infectious Disease Society of America meeting in October 2006. Valortim has been granted Fast Track Status by the FDA, which may permit PharmAthene to submit portions of a Biologics License Application ("BLA") or efficacy supplement before the complete BLA is submitted. This may expedite the review process but requires that the FDA have sufficient resources to allow early review of the portions submitted. In addition, Valortim has been granted orphan drug status for the treatment of inhalational anthrax.

Protexia, PharmAthene's second product candidate, is a recombinant form of human butyrylcholinesterase ("BChE") for use in the prophylaxis and treatment of organophosphate chemical nerve agent poisoning. Preclinical trials on animal models have demonstrated that Protexia is highly efficacious as both a prophylaxis and a therapeutic for chemical nerve agent poisoning. PharmAthene plans to continue preclinical animal studies of Protexia throughout 2006 and 2007 and file an Investigational New Drug application ("IND") with the FDA in 2008. The procurement process for the scale-up development and sale of Protexia is already underway with the U.S. Department of Defense ("DoD"), the department tasked with purchasing biodefense countermeasures for military use. The DoD requested competitive bids in an RFP for a recombinant form of BChE drug for the prophylaxis treatment of chemical nerve agent poisoning, which PharmAthene submitted in November 2005. In September 2006, PharmAthene was awarded a contract with a potential value of $213 million by the DoD for advanced development of Protexia and procurement of an initial 90,000 doses.

Strategy

PharmAthene's goal is to become the premier company worldwide specializing in the discovery, development, and commercialization of therapeutic and prophylactic drugs for defense against bioterrorism and to eventually leverage its biodefense capabilities for non-biodefense products in broader commercial markets. PharmAthene's strategy to achieve this objective includes the following elements:

§ **In-license or acquire development-stage product candidates that address other large biodefense markets**. PharmAthene endeavors to continue to build a portfolio of development-stage products in the area of biodefense. PharmAthene intends to continue to identify development-stage product candidates, including therapeutics, diagnostics and vaccines, that address the bioterrorism threats given the highest priority by the U.S. government, such as smallpox and botulinum toxin.

§ **Maximize the value of its product candidates, Valortim and Protexia, by accessing the resources of PharmAthene's partners**. PharmAthene intends to maximize the value of its product candidates by leveraging the substantial clinical, financial, regulatory, and commercial strengths of its partners. PharmAthene believes that Medarex provides manufacturing and monoclonal antibody development expertise and other resources needed to help successfully develop Valortim. In addition, PharmAthene actively co-developed Protexia with the U.S. Army under a cooperative research and development agreement. PharmAthene believes the U.S. Army is the leading institution in the area of chemical nerve agent testing and analysis, including modified, more toxic forms of organophosphate nerve agents which have not yet been, but may eventually be, used as weapons.

§ **Establish additional collaborations with pharmaceutical and biotechnology companies**. PharmAthene will seek to enter into additional partnerships to support the development of existing and future pipeline products, or to more favorably position its products for government procurement.

§ **Market and apply PharmAthene's capabilities in the procurement of government contracts to sell other companies' products**. PharmAthene personnel have significant experience in dealing with all aspects of government contract bidding and maintenance. PharmAthene believes that companies that are not focused on biodefense but that do have products that could be sold to the government could benefit from PharmAthene's capabilities. PharmAthene has been approached, and anticipates it will continue to be approached, by companies willing to enter into sales, marketing and distribution agreements for access to PharmAthene's government contracting expertise.

§ **Expand into commercial markets by leveraging PharmAthene's biodefense capabilities**. To diversify its risk of dependence on government funding of biodefense products, PharmAthene intends to apply its drug development expertise and capabilities for the development of non-biodefense products for broader commercial markets. For example, PharmAthene believes that Protexia, its recombinant human BChE product, in addition to having utility as a broad-spectrum countermeasure against nerve agent chemical weapons, may be used to treat cocaine and heroin addiction. PharmAthene believes that increasing endogenous levels of BChE can help reduce risks of complications due to cocaine and heroin abuse as well as help prevent and treat addiction.

Biodefense Industry

Market Overview

In recent years, the U.S. government has significantly increased spending for development of measures to counteract biowarfare agents and has established numerous programs with some budgets extending out for nearly a decade. U.S. government spending on military and civilian biodefense currently averages nearly $7 billion annually, representing the vast majority of spending on biodefense countermeasures worldwide. The biodefense market can be divided into three segments: U.S. civilian, U.S. military, and non-U.S. markets.

§ U.S. Civilian

The U.S. civilian market includes funds allocated to protecting the U.S. population from biowarfare agents. The market is largely funded by Project BioShield. The Project BioShield Act of 2004, the U.S. government's largest biodefense initiative, was signed into law for the procurement of biodefense countermeasures for the Strategic National Stockpile. Project Bioshield provided for $5.6 billion in biodefense spending for the period from July 2004 through 2013. Procurement awards totaled $1.8 billion through 2006. $400 million is awarded through 2008. The remaining $2.2 billion is scheduled to become available in 2009.

According to the DoD, U.S. civilian biodefense spending outside of Project BioShield has been approximately $5 billion per year since 2003. The Department of Health and Human Services and the Department of Homeland Security account for 88% of civilian biodefense dollars.

§ Military

The DoD is responsible for the development and procurement of countermeasures for the military segment which focuses on providing biowarfare protection for military personnel and civilians who are on active duty. The Chemical and Biological Program was funded with $1.2 billion in 2005, while $1.5 billion was requested for 2006, according to the DoD. Of such amounts, funds dedicated to the development and procurement of medical technologies, therapeutics, and vaccines are approximately $300 million for 2005, while nearly $400 million has been requested for 2006. Total funding for the Chemical and Biological Program between 2006 and 2011 is projected by the U.S. government to be $9.9 billion.

§ Non-U.S. Markets

Non-U.S. markets address protection against biowarfare agents for both civilians and military in foreign countries. PharmAthene believes the recognition by foreign governments of a need for biodefense programs has been increasing recently. Foreign biodefense programs would help support a larger market and also further diversify PharmAthene's potential sources of funding.

Project BioShield

Project BioShield is focused on products with low technology risk that will be available for purchase in the near term. The U.S. government has identified the following indications as a priority: anthrax; smallpox; botulinum toxin; radiation; and nerve agent exposure. To identify the best products for these indications, HHS has issued Requests for Information ("RFI") followed by Requests for Proposal ("RFP"). The RFP details requirements including treatment types, number of doses and delivery timeframe. To qualify for Project BioShield funding, a company is required to demonstrate product efficacy in an animal model, initial product safety in Phase I clinical trials and sufficient manufacturing capabilities. To date, 10 awards have been made under Project BioShield, including those for anthrax vaccines and therapeutics, radiation, and botulinum. While the largest contract ($877 million) for anthrax vaccine was terminated, HHS has indicated those funds will be allocated to a new solicitation and award for anthrax vaccines.

Development Cycle

The U.S. government has acted to facilitate expeditious development of biodefense countermeasures by shortening the development and approval process relative to traditional pharmaceutical products. Development of biodefense products may be less expensive and less risky compared to traditional therapeutics and vaccines because human efficacy trials are not required.

Immediate Biodefense Focus: Anthrax and Nerve Agent Exposure

Under Project BioShield, the government has identified certain indications as priorities for biodefense funding including anthrax, smallpox, botulinum toxin, radiation, and nerve agent exposure. PharmAthene is pursuing the development of products in the areas of anthrax and nerve agent exposure.

Anthrax

The three general modes of infection by *Bacillus anthracis* ("*B. anthracis*"), the bacterium which causes anthrax, are by inhalation, ingestion, and skin contact. Inhalation is the form of infection most likely to be lethal. Inhalational anthrax occurs when the anthrax bacterium becomes airborne and enters a person's body through the lungs. Persons suffering from inhalation anthrax will experience a series of symptoms consisting of fever, muscle aches, fatigue, and cough, which lasts an average of four days. Following this period, there is rapid onset of severe respiratory distress, low blood oxygen and low blood pressure, which generally culminates in death. Inhalation anthrax has a 95% to 100% mortality rate if left untreated, and at least a 50% mortality rate in patients treated aggressively with antibiotics. Persons infected by *B. anthracis* that is ingested will suffer from gastrointestinal anthrax; those whose skin comes into contact with the anthrax bacteria will suffer from cutaneous anthrax. Gastrointestinal anthrax often presents those exposed with serious gastrointestinal difficulty, vomiting of blood, severe diarrhea, acute inflammation of the intestinal tract, and loss of appetite. Gastrointestinal anthrax has a 25% to 65% mortality rate if left untreated. Cutaneous anthrax generally causes skin infections within a week or two after exposure. Cutaneous anthrax is the least fatal. Without treatment, approximately 20% of all skin infection cases are fatal. Treated cutaneous anthrax is rarely fatal.

B. anthracis is a spore forming bacterium that has potential use as a weapon of bioterror, especially when delivered in an aerosolized form. Following germination of the spores, the bacteria replicates and produces three toxins. The first of these toxins, Anthrax Protective Antigen initiates the onset of illness by attaching to the outside of the healthy cells of the infected person, and then facilitates the entry of the two additional destructive toxins, referred to as Lethal Factor and Edema Factor, into those cells.

The DoD estimates that up to ten countries may possess anthrax weapons and an undetermined number of individuals and terrorist groups could have access to anthrax. Anthrax is an effective bioterrorism agent because the spore-forming bacteria are very stable, can be milled to a very fine powder, and may be dispersed widely with readily available instruments and machinery. The World Health Organization estimates that 50 kilograms of *B. anthracis* released upwind of a city of 500,000 people could result in up to 95,000 fatalities, with an additional 125,000 persons being incapacitated.

PharmAthene believes that currently available treatment for inhalation anthrax is limited and suboptimal. Following exposure, but prior to the onset of symptoms, antibiotics like ciprofloxacin, doxycycline, or penicillin can be used as post-exposure prophylaxis with the goal of preventing progression of the disease. In order to be fully effective when used in this way, the recommended antibiotic treatment must be continued for sixty days. PharmAthene believes that both compliance and side effects are problematic for anyone asked to take antibiotics for such an extended period of time. A product like Valortim, with a prolonged half-life, might allow for less frequent dosing to achieve adequate post-exposure prophylaxis.

Once symptoms have developed following exposure, interventions are aimed at improving mortality. PharmAthene believes the addition of an anti-toxin like Valortim has the potential to significantly improve upon the current therapeutic regimen, and it would have the added benefit of having activity against the toxins released from antibiotic-resistant strains.

Chemical Weapons and Nerve Agents

Chemical weapons use the toxic properties, as opposed to the explosive properties, of chemical substances to produce physiological effects on an enemy. Classic chemical weapons, such as chlorine and phosgene, were employed during World War I and consisted primarily of commercial chemicals used as choking and blood agents, which caused respiratory damage and asphyxiation. Nerve agents, one of the most lethal forms of chemical weapons, were developed in the 1930s during the lead up to World War II.

Nerve agents function by binding to acetylcholinesterase, an enzyme that normally causes the neurotransmitter acetylcholine to relax. By blocking the activity of acetylcholinesterase, nerve agents cause nerve impulses to be continually transmitted, causing muscle contractions that do not stop. This effect is referred to as a “cholinergic crisis” and consists of a loss of muscle control, respiratory failure, paralysis and convulsions. Nerve agent exposure that does not cause death after a short period can lead to permanent brain damage. Nerve agents are a class of organophosphates, a term which refers to organic chemicals that contain the element phosphorous.

Nerve agents, which are all liquids at room temperature, are generally lethal far more quickly and in far lower quantities than are classic chemical weapons, and are effective both when inhaled and when absorbed through the skin. Nerve gases can be classified as either G-agents (such as sarin, soman, tabun) or V-agents (such as VX), both of which are volatile and toxic. Chemical agents can be delivered through explosive devices, spray tanks or most any other liquid or gas dispersion devices and machinery.

The current standard of care for post-exposure treatment involves repeated doses of a cocktail of drugs, including atropine, oxime reactivators, and anti-convulsants. PharmAthene believes available treatment options are inadequate and there is a need for more efficacious countermeasures, especially as evidence mounts that modified, more toxic forms of organophospates, VX and G agents may be used in future attacks.

There is currently only one FDA approved product, Pyridostigmine bromide ("PB"), which is used as a "pre-treatment adjunct" against nerve agent poisoning, and it is only usable to counteract poisoning by one nerve agent, soman. It confers no protection on its own but enhances the protection conferred by post-exposure treatment. The current standard of care for post-exposure treatment involves repeated doses of a cocktail of drugs including atropine, oxime reactivators ("2-PAM") and anti-convulsants. However, this standard of care acts primarily on the symptoms of nerve agents, not their underlying cause. PharmAthene believes available pre-and post-treatment options are inadequate and that there is a need for more efficacious countermeasures.

PharmAthene's Solutions

Based on its preclinical and clinical trials to date, PharmAthene believes its two product candidates will offer tangible benefits over existing treatments for inhalation anthrax and chemical nerve agent poisoning.

PharmAthene's Product Pipeline

			Status				
Product Candidate	**Type**	**Disease**	**Pre-clinical**	**Phase I**	**FDA Submission**	**Next Milestone**	**Partner**
Valortim	Monoclonal Antibody	Inhalation anthrax				NIAID contract for advanced development—2Q07	Medarex
Protexia	Recombinant Butyrylcholin esterase protein	Toxicity caused by nerve agents				Complete process development—2Q07	None

Valortim: Anthrax Monoclonal Antibody

Valortim is a fully human antibody designed to protect against or treat inhalation anthrax, the most lethal form of illness in humans caused by *B. anthracis*. Valortim functions by targeting Anthrax Protective Antigen, a protein component of the lethal toxins produced by the bacterium. Anthrax Protective Antigen ("Anthrax PA") initiates the onset of the illness by attaching to and facilitating the entry of the destructive toxins Lethal Factor ("LF") and Edema Factor ("EF") into healthy cells in the infected person. Valortim is designed to bind to Anthrax PA and protect the cells from damage by the anthrax toxins. In preclinical studies, Valortim both protected against infection, and when administered some time after exposure, facilitated recovery and survival in animals exposed to lethal inhalation doses of anthrax spores.

Anthrax spore challenge studies in animals have demonstrated protection by Valortim both when given early following challenge (post-exposure prophylaxis) as well as when given up to 48 hours after challenge (therapeutic intervention). Valortim binds to a novel site of Anthrax PA, permitting protection after toxins have already attached to the cell. PharmAthene believes Valortim's potency and unique mechanism of action differentiate it from competing products, and provides superior activity in the toxin neutralization assay. Pharmathene believes that, in the initial Phase I clinical trials in healthy human volunteers, PharmAthene believes Valortim was well-tolerated with no drug-related serious adverse events reported.

Development Timeline

Currently, PharmAthene and Medarex have completed dosing in a Phase I open-label, dose-escalation clinical trial to evaluate the safety, tolerability, immunogenicity, and pharmacokinetics of a single dose of Valortim administered intravenously or intramuscularly in healthy volunteers. Final results from the Phase I study were presented at the Infectious Disease Society of America meeting in October 2006.

Recently, Valortim received Fast Track designation from the FDA, which generally indicates that the FDA will facilitate the development and expedite the regulatory review of the product. However, PharmAthene can provide no assurance that the review will be successful. Valortim has also been granted Orphan Drug status, a designation for drugs developed for diseases which affect less than 200,000 persons in the United States and provides for reduced fees to the FDA, market exclusivity for seven years and other FDA-related privileges.

Clinical and Preclinical Studies

Valortim is being developed for two indications: (i) as a post-exposure prophylaxis; and (ii) as a post-exposure therapy.

Clinical Phase I Studies

Valortim has been tested in a Phase I, single-dose, dose-escalation trial in healthy human volunteers. PharmAthene found that subjects tolerated Valortim without drug-related serious adverse events. Minor adverse events reported included pain at the intramuscular injection site, headache, muscle aches, and occasionally bruising at the site of the intravenous catheter inserted for drug dosing and blood draws. Pharmacokinetic data indicate that Valortim has good bioavailability following intramuscular injection; additionally, both intravenous and intramuscular injection result in a half-life of 26 to 30 days.

Preclinical Studies: Post-exposure Prophylaxis Indication

PharmAthene has conducted two studies in animals to evaluate the use of Valortim as a post-exposure prophylaxis, or, in other words, to protect exposed patients from developing the symptoms and from dying of inhalational anthrax. Eighty-five percent of rabbits treated intravenously with doses of Valortim survived following inhalational exposure to anthrax spores. One hundred percent of cynomolgus monkeys treated intramuscularly with doses of Valortim were protected from death following exposure to inhalational anthrax spores. Treatment of both of these animal models was initiated within one hour following exposure to the anthrax spores.

PharmAthene has also conducted a study in animals to evaluate the use of Valortim as a post-exposure therapeutic. This indication for Valortim would be intended to treat those patients who have already developed symptoms of inhalational anthrax. In this study, 89% of the animals treated with Valortim intravenously twenty-four hours following inhalational exposure to anthrax spores survived. A second group of animals were not treated with Valortim until forty-eight hours following exposure; 42% of the animals treated at this timepoint survived. Lower doses have not yet been tested in this model. Additional work has begun to test Valortim in a second animal model for its effectiveness when given at extended timepoints following inhalational anthrax spore exposure.

Protexia: Recombinant Human Butyrylcholinesterase

Protexia is a recombinant version of human butyrylcholinesterase (“rBChE”), a naturally occurring protein found in minute quantities in blood. In its natural form, butyrylcholinesterase, or “BChE” functions as a natural bioscavenger, like a sponge, to absorb and degrade organophospate poisons (e.g. nerve agents) before they cause neurological damage. Protexia is being developed as a pre-exposure and post-exposure therapy for military and civilian targets of a nerve agent attack.

PharmAthene, in collaboration with the Institute for Chemical Defense ("ICD"), a U.S. military organization where the testing of Protexia against traditional and non-traditional agents is performed, has screened for neutralizing activity by rBChE against a number of these classified agents. rBChE continues to be assayed against such non-traditional agents as they become available. In addition, newer more potent forms of rBChE will be screened as second-generation rBChE molecules (having higher affinity binding characteristics and enhanced catalytic activity) become available. Because ICD is a U.S. military organization, which treats the results of its studies as classified national security information, the results of these tests are not available to PharmAthene or to the public.

Development Timeline

Protexia's capability as a medical countermeasure has been demonstrated *in vivo* by its ability to protect animals from multiple lethal doses of nerve agent chemical weapons. Protexia has also been demonstrated to bind a broad spectrum of agents, including sarin, soman, tabun and VX. Protexia has several likely advantages, including providing protection both pre-exposure and post-exposure, detoxification of organophosphate nerve agents with full spectrum protection and an acceptable safety profile.

Protexia Proof of Concept Studies

Protexia is being developed for two indications: (i) as a pre-exposure prophylaxis; and (ii) as a post-exposure therapy.

Pre-exposure Prophylaxis Indication:

Pre-treatment with Protexia not only provided 100% survival against multiple lethal doses of the nerve agents VX and soman in animal models but surviving animals also displayed no nerve agent side effects. In these experiments, one group of animals was pre-treated with Protexia or a negative control. Eighteen hours later, they were exposed to multiple lethal doses of nerve agent (VX or soman). Another group of animals was exposed to approximately 75% less nerve agent and then treated immediately with the current standard therapy, a three-drug cocktail of atropine, 2-PAM and diazepam. Animals were videotaped post-exposure and evaluated for toxic signs by observers blinded to the treatment groups. In addition, a functional observation battery neurological function tests (ability to balance and memory tests) were formed six hours after exposure.

Results: None of the control animals exposed to nerve agents alone survived while 100% of animals pretreated with Protexia survived with no visible nerve agent side effects and no loss of balance or memory relative to negative control animals. In contrast, the animals exposed to much lower levels of nerve agents and subsequently treated with the current standard therapy did not respond as well. Survival in these animals was mixed with 100% survival in animals exposed to VX but only 50% survival in animals exposed to soman, although all survivors had significant side effects including a pronounced loss of balance and loss of memory.

Post-exposure Therapeutic Indication:

Based on the demonstration of protection when Protexia was administered before nerve agent exposure, a series of experiments were conducted to determine whether Protexia was effective as a therapy when administered after exposure to nerve agent.

The therapeutic efficacy of Protexia was first evaluated in a domestic pig model with rapid (intravenous) exposure to nerve agent (VX) followed by treatment with Protexia 15 minutes later. All of the control animals receiving nerve agent alone died with an average time to death of 1.5 hours while 50% of animals receiving Protexia survived with a prolonged time to death (average of 5.4 hours) in the animals that died.

A second study was then conducted to evaluate the therapeutic efficacy of Protexia in a different animal model and to increase the time before treatment with Protexia to one hour. In this study, 90% of the animals exposed to VX on the skin and then treated with Protexia survived as compared to no survivors among the group that was not treated.

U.S. Government Regulatory Pathway

General

Regulation by governmental authorities in the United States and other countries will be a significant factor in the production and marketing of any biopharmaceutical products that PharmAthene may develop. The nature and the extent to which such regulations may apply to PharmAthene will vary depending on the nature of any such products. Virtually all of PharmAthene's potential biopharmaceutical products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous pre-clinical and clinical testing and other approval procedures by the FDA and similar health authorities in foreign countries. Various federal statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of such products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations requires the expenditure of substantial resources.

Government Funding

The U.S. Government awarded Medarex, PharmAthene's partner in the development of Valortim, two separate grants of up to $7.2 million over the next three years for the further development of Valortim. In addition, the DoD Appropriations bills for fiscal year 2006 and 2007 included $2.05 million and $1.0 million respectively to support PharmAthene's ongoing development of Valortim. Prior to PharmAthene's acquisition of the recombinant butyrylcholinesterase program, Nexia, the predecessor of PharmAthene Canada, was awarded a $2.6 million contract by the DoD to support the expression of rBChE in the milk of transgenic goats and to provide proof of concept data that the product can be produced in kilogram quantities. Additionally, PharmAthene was awarded a multi-year contract which can provide up to $213 million by the DoD U.S. Army Space and Missile Command for the advanced development of Protexia.

Collaborations

PharmAthene entered into a collaboration and development agreement with Medarex in November 2004 to co-develop Valortim for the treatment of anthrax infection. Under the terms of the agreement, Medarex and PharmAthene have agreed jointly to continue to investigate the potential for Valortim to be used as a therapeutic for individuals with active disease as well as for prophylactic treatment of individuals exposed to anthrax. Medarex received an initial payment from PharmAthene of $2,000,000 used to fund development activities already underway for Valortim. PharmAthene will be solely responsible for funding all future research and development activities that are not supported by government funds. The companies will share profits according to a predetermined allocation percentage. The percentage of profits that PharmAthene will be entitled to receive will depend in part upon the amount of funding that it provides in connection with the collaboration. Additionally, PharmAthene will be responsible for marketing, selling and distribution of the product.

Additional animal model development and testing of Valortim for therapeutic efficacy will be carried out under a recently established Collaborative Research and Development Agreement with the U.S. Army Medical Research Institute of Infectious Diseases.

PharmAthene has actively co-developed Protexia with the U.S. Army Medical Research Institute of Chemical Defense under a cooperative research and development agreement.

Non-Biodefense Products in Development

In addition to its utility as a broad-spectrum countermeasure against nerve agent chemical weapons, PharmAthene is evaluating the use of BChE as a potential clinical candidate for the treatment of cocaine and heroin addiction and the treatment of initial toxicity from overdose of cocaine and heroin. This is due to the unique structure of the enzyme that allows for selective binding to a variety of substrates and inhibitors. Increasing endogenous levels of BChE can reduce risks of complications due to cocaine and heroin abuse.

Intellectual Property

PharmAthene's success depends in part on its ability to obtain patents, to protect trade secrets, and to operate without infringing upon the proprietary rights of others. PharmAthene seeks to protect its proprietary position by, among other methods, filing U.S. and foreign patent applications related to the proprietary technology, inventions and improvements that are important to the development of its business. Further, all of PharmAthene's employees have executed agreements assigning to PharmAthene all rights to any inventions and processes they develop while they are employed by PharmAthene.

In addition, PharmAthene intends to use license agreements to access external products and technologies, as well as to convey its own intellectual property to others. PharmAthene will be able to protect its proprietary rights from unauthorized use by third parties only to the extent that its proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. Protection of PharmAthene's intellectual property rights is subject to a number of risks.

Manufacturing

PharmAthene has limited manufacturing capabilities and believes that acceptable alternatives are available through Contract Manufacturing Organizations "CMOs." These CMOs have experience in operating under the current Good Manufacturing Practices established by the FDA.

For Protexia, PharmAthene owns and operates a transgenic goat farm for the production of BChE in Quebec, Canada. PharmAthene is currently producing this protein in the milk of transgenic goats at commercially feasible concentrations. This farm will be used for the commercial production of the crude material. The large-scale recovery and purification process is currently under development at PharmAthene's research center in Montreal and at a CMO. For commercial manufacturing, the initial production will be performed at PharmAthene's farm and the final purification of the bulk drug substance will be performed at a CMO. Final formulation and delivery are still being developed.

For Valortim, the cell culture process was developed by PharmAthene's partner for Valortim, Medarex, and results in a commercially feasible and high purity product that would be manufactured commercially by a CMO. PharmAthene has determined that the capital investment and high operating costs of a manufacturing operation are not justified at this time and several acceptable CMOs are available to produce this product.

Competition

Anthrax Therapeutics:

Monoclonal antibodies ("MAbs") directed against anthrax PA are being developed for post-exposure prophylaxis and as symptomatic therapy for anthrax infection. There are currently a limited number of companies of which PharmAthene is aware with anti-anthrax MAbs in development. These include: Human Genome Sciences, Inc., Elusys Therapeutics, Inc., Avanir Pharmaceuticals Inc. and IQ Corporation BV.

There are a number of orally available small molecule drugs approved and/or under development for the treatment of anthrax. These include both broad spectrum antibiotics as well as anthrax specific products. Bayer Corporation produces Ciprofloxacin, or "Cipro," which has been approved for the post-exposure prophylaxis of inhalation anthrax. In late 2004, a number of generic versions of Cipro were also approved by the FDA.

In addition to anthrax therapeutics, anthrax vaccines are currently available or in development. At present, only one vaccine is approved for use by the FDA for the prevention of anthrax which is BioThrax made by BioPort Corporation, a subsidiary of Emergent Biosolutions Inc. PharmAthene believes that second generation vaccines consisting of recombinant protective antigen are being developed by VaxGen Inc. and Avecia Biotechnology. PharmAthene also believes that third generation vaccines, consisting of improved formulations of the anthrax protective antigen are being developed by Avant Immunotherapeutics Inc., BioSante Pharmaceuticals, Cerus Corporation Inc., Dynavax Technologies Inc., DVC, Vical and LigoCyte Pharmaceuticals Inc.

Organophosphorous Nerve Agent Therapeutics:

Nerve agents are considered to be among the most lethal biowarfare agents, yet there are few antidotes available. Symptoms of intoxication develop within seconds, and death can result within minutes after exposure by inhalation, absorption through the skin, or by oral consumption.

The current medical regimen for organophospate intoxication includes pretreatment with carbamates (i.e. *pyridostigmine*) to protect acetylcholinesterase (AChE) from irreversible inhibition, followed by anticholinergic drugs (i.e. *atropine*) to counteract the effects of excess acetylcholine, quaternary ammonium oximes (i.e. *2-PAM*) to reactivate AChE that was inhibited by organophospate binding, and anticonvulsant drugs (i.e. *diazepam*) to minimize convulsions and permanent brain damage.

However, these medical countermeasures against nerve agents are not sufficiently effective, particularly at protecting the central nervous system. PharmAthene is aware of several antidotes to other nerve agents being developed by pharmaceutical companies, including Meridian Medical Technologies, a subsidiary of King Pharmaceuticals Inc. and DVC, a division of Computer Sciences Corp., in collaboration with Baxter Healthcare Corporation.

PharmAthene's Subsidiary: PharmAthene Canada, Inc.

PharmAthene's efforts with respect to Protexia are conducted primarily through its facility in Canada and through its Canadian subsidiary, PharmAthene Canada, Inc. ("PharmAthene Canada") through which it develops and manufactures complex recombinant proteins in the milk of transgenic goats for medical and industrial applications. PharmAthene Canada's strength is producing proteins that cannot be made commercially using other recombinant systems.

Item 8.01 Other Events

Investor Presentation

Attached as Exhibit 99.2 to this Current Report on Form 8-K is the form of slide show presentation that HAQ expects to use in presentations to certain of its stockholders.

Non-GAAP Financial Measures

The press release and investor presentation filed as exhibits to this Current Report on Form 8-K include certain financial information not derived in accordance with generally accepted accounting principles ("GAAP"). HAQ believes that the presentation of this non-GAAP measure provides information that is useful to investors as it indicates more clearly the ability of PharmAthene to meet capital expenditures and working capital requirements.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated January 19, 2007 by and among Healthcare Acquisition Corp., PAI Acquisition Corp., and PharmAthene, Inc.
4.1	Form of Note Exchange Agreement
4.2	Form of 8% Convertible Note of Healthcare Acquisition Corp.
10.1	Form of Registration Rights Agreement to be entered into by Healthcare Acquisition Corp. and the former stockholders and note holders of PharmAthene, Inc.
99.1	Press Release issued January 22, 2007
99.2	Investor Presentation

SIGNATURE

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

Dated: January 22, 2007

HEALTHCARE ACQUISITION CORP.

By: /s/ Matthew P. Kinley

Matthew P. Kinley
President

AGREEMENT AND PLAN OF MERGER

DATED AS OF

JANUARY 19, 2007

BY AND AMONG

HEALTHCARE ACQUISITION CORP.,

PAI ACQUISITION CORP.

AND

PHARMATHENE, INC.

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AGREEMENT AND PLAN OF MERGER, dated as of January 19, 2007 (this "*Agreement*"), by and among Healthcare Acquisition Corp., a Delaware corporation ("*Parent*"), PAI Acquisition Corp., a Delaware corporation and a direct, wholly-owned subsidiary of Parent ("*Merger Sub*"), and PharmAthene, Inc., a Delaware corporation ("*Company*").

WITNESSETH:

WHEREAS, the respective Boards of Directors of Parent and Company have determined that it is advisable and in the best interests of each corporation and its stockholders that Parent and Company engage in a business combination in order to advance the long-term strategic business interests of Parent and Company; and

WHEREAS, in furtherance of such determination, Parent and Company desire to engage in a business combination transaction by means of a merger pursuant to which Merger Sub, a direct, wholly-owned subsidiary of Parent formed solely for the purpose of effecting the merger, will merge with and into Company as a result of which Company will be the surviving corporation and a direct, wholly-owned subsidiary of Parent; and

WHEREAS, in furtherance of such desire, the respective Boards of Directors of Parent, Merger Sub and Company have adopted or approved this Agreement, pursuant to which, subject to the terms and conditions hereof and in accordance with the General Corporation Law of the State of Delaware, Merger Sub will be merged with and into Company with Company being the surviving corporation (the "*Merger*"); and

WHEREAS, prior to or concurrently with the execution of this Agreement, the holders of a Requisite Majority of the Company Capital Stock (each as defined herein) have executed or are executing an Allocation Agreement (as defined herein), pursuant to which they, among other things, are agreeing to the allocation of the Merger Consideration (as defined herein) as set forth therein;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements of the parties set forth in this Agreement, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1. Defined Terms. All terms not otherwise defined throughout this Agreement shall have the meanings ascribed to such terms in Article X of this Agreement.

1.2. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "*DGCL*"), Merger Sub shall be merged with and into Company at the Effective Time (as defined in Section 1.4). Upon consummation of the Merger, the separate corporate existence of Merger Sub shall cease and Company shall continue as the surviving corporation (the "*Surviving Corporation*").

1.3. Closing. Subject to the terms and conditions hereof, the closing of the Merger and the transactions contemplated by this Agreement (the "*Closing*") will take place on or before the third Business Day after the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VI (other than any such conditions which by their terms cannot be satisfied until the Closing, which shall be required to be so satisfied or waived (subject to applicable law) on the Closing Date) unless another time or date is agreed to in writing by the parties hereto (the actual time and date of the Closing being referred to herein as the "*Closing Date*"). The Closing shall be held at the offices of Ellenoff Grossman & Schole, LLP, 370 Lexington Avenue, New York, New York, unless another place is agreed to in writing by the parties hereto.

1.4. Effective Time. At the Closing, the parties shall file a certificate of merger (the "*Certificate of Merger*") in such form as is required by and executed in accordance with the relevant provisions of the DGCL. The Merger shall become effective at such time as the Certificate of Merger is duly filed with the Secretary of State of the State of Delaware, or at such subsequent time as Parent and Company shall agree and as shall be specified in the Certificate of Merger (the date and time that the Merger becomes effective being referred to herein as the "*Effective Time*").

1.5. Effects of the Merger. At and after the Effective Time, the effect of the Merger shall be as provided in this Agreement and the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all of the property, rights, privileges, powers and franchises of Company and Merger Sub shall be vested in the Surviving Corporation, and all debts, liabilities and duties of Company and Merger Sub shall be the debts, liabilities and duties of the Surviving Corporation.

1.6. Certificate of Incorporation. At the Effective Time and without any further action on the part of Company or Merger Sub, the certificate of incorporation of Company, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation, and thereafter shall continue to be the certificate of incorporation until changed or amended as provided therein and under applicable law. Notwithstanding the foregoing, the certificate of incorporation of Company shall be amended and restated as of the Effective Time to provide for the changing of the name of Company and to eliminate all classes of equity securities other than common stock.

1.7. Bylaws. At the Effective Time and without any further action on the part of Company and Merger Sub, the bylaws of Company, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation, and thereafter shall continue to be the bylaws until changed or amended or repealed as provided therein, in the certificate of incorporation of the Surviving Corporation and under applicable law.

1.8. Directors and Officers.

(a) *Members of Board of Directors*. From and after the Effective Time, the members of the Board of Directors of both the Parent and the Surviving Corporation shall consist of John Pappajohn, Derace M. Schaffer, M.D., James Cavanaugh, Steven St. Peter, Elizabeth Czerepak, Joel McCleary and David Wright, each to serve until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If at or after the Effective Time a vacancy shall exist in the Board of Directors of Parent and the Surviving Corporation, such vacancy may thereafter be filled in the manner provided by law, the certificate of incorporation and bylaws of Parent and the Surviving Corporation, as the case may be.

(b) *Officers of Parent and Surviving Corporation*. From and after the Effective Time, the officers of Parent and of the Surviving Corporation shall be elected by the Board of Directors of each entity provided, however, that David Wright shall be elected Chief Executive Officer of each such entity to serve until his successor is elected and qualified or until his earlier death, resignation or termination.

1.9. Effect of Merger on Company Capital Stock and Options; Merger Consideration. Subject to the terms and conditions of this Agreement, at the Effective Time, by virtue of the Merger and this Agreement and without any action on the part of Merger Sub, Company or the holder of any shares of Company Capital Stock (as defined in clause (b)(i) below) the following shall occur:

(a) *Company Treasury Shares.* All shares of Company Common Stock (as defined in clause (b)(i) below) that are held by Company as treasury stock (the "*Company Treasury Shares*") or owned by Merger Sub, Parent or any direct, or indirect, wholly-owned subsidiary of Parent immediately prior to the Effective Time shall be canceled and shall cease to exist and no cash, Parent Common Stock (as defined in clause (b)(i) below) or other consideration shall be delivered in exchange therefor.

(b) Company Capital Stock.

(i) The shares of common stock of Company, $.001 par value (the "*Company Common Stock*"), Series A Convertible Preferred Stock of Company, $.001 par value (the "*Company Series A Preferred Stock*"), Series B Convertible Preferred Stock of Company, $.001 par value (the "*Company Series B Preferred Stock*"), and Series C Convertible Preferred Stock of Company, $.001 par value (the "*Company Series C Preferred Stock*" and together with the Company Series A Preferred Stock, and the Company Series B Preferred Stock, the "*Company Preferred Stock*" and together with the Company Common Stock collectively referred to as "*Company Capital Stock*", outstanding immediately prior to the Effective Time, shall be deemed canceled and converted into the right to receive the merger consideration comprised of: (y) 12,500,000 shares of Common Stock of Parent, $.0001 par value ("*Parent Common Stock*"), subject to upward adjustment pursuant to clause (c) below (the "*Stock Consideration*") and (z) to the extent applicable, the Milestone Payments (as defined in Article X).

(ii) The specific ratio of exchange for the Company Common Stock for shares of Parent Common Stock ("*Share Exchange Ratio*") as well as the specific Merger Consideration to be received by the holders of other classes of Company Capital Stock have been prepared by Company in accordance with the Recapitalization and Proceeds Allocation Agreement, dated the date of this Agreement, entered into by and among Company and the holders of a Requisite Majority of the Company Common Stock and Company Preferred Stock and the holders of the PharmAthene Notes (as defined below) (the *"Allocation Agreement"*), and are set forth on Schedule 1.9(b)(i) and will be confirmed or adjusted by the Company, as applicable, at Closing. The holders of Company's issued and outstanding secured 8% convertible notes and the Subsidiary's issued and outstanding secured 8% convertible note, collectively with an aggregate principal amount of $11,800,000 (collectively the "*PharmAthene Notes*") shall exchange such notes for 8% Convertible Notes of Parent in the aggregate principal amount of $12.5 million (the "*Note Consideration*") in substantially the form of Exhibit A attached hereto, pursuant to the Note Exchange Agreement, as further described in Section 6.3(j)(viii) below. Parent shall issue the Merger Consideration (as defined in the next sentence) in accordance with the Allocation Agreement. For purposes of this Agreement, the term *"Merger Consideration"* shall be deemed to include (a) the Stock Consideration; (b) the Milestone Payments and (c) the Note Consideration.

(c) *Adjustments to the Merger Consideration*. The Merger Consideration shall be subject to the following adjustments:

(i) To the extent that the stockholders of Parent owning more than 5% of the outstanding Parent Common Stock exercise their conversion rights as set forth in Section 6.1(b), the number of shares of Parent Common Stock comprising the Stock Consideration shall be adjusted upward by the product of (x) the number (as a percentage) that is the difference between the percentage of Parent Common Stock that is converted and 5% and (y) 2.25 million.

(ii) To the extent that there are Outstanding Employee Options (as defined in clause (d) below) there shall be no increase in the number of shares of Stock Consideration being issued, but the number of shares of Parent Common Stock issued at the Closing as part of the Stock Consideration shall be adjusted downward by an amount equal to the number of shares necessary to reserve for issuances under any Outstanding Employee Options in accordance with the Allocation Agreement.

(iii) Except for any warrants issued pursuant to a Company Subsequent Issuance (as defined in clause (c)(iv) below), the terms of which shall be subject to the provisions of clause (c)(iv) below, to the extent that there are outstanding warrants to purchase shares of Company Common Stock ("*Company Warrants*"), there shall be no increase in the number of shares of Stock Consideration being issued, but the number of shares of Parent Common Stock issued at the Closing as part of the Stock Consideration shall be adjusted downward by an amount equal to the number of shares necessary to reserve for issuances under any outstanding Company Warrants in accordance with the Allocation Agreement.

(iv) If, prior to the date that the Proxy Statement (as defined in Section 4.1) to be filed by Parent pursuant to Article IV hereof is approved by the SEC, Company issues additional shares of its Common Stock (or any equity or debt securities convertible into Common Stock) for cash consideration of up to $5 million (subject to the limitation that the securities of the Company issued to the purchasers (the *"Subsequent Issuance Securities"*) thereof will not convert into more than 625,000 shares of Parent Common Stock in the Merger, which number of shares would be proportionately reduced to reflect the sale of less than $5 million) (a "*Company Subsequent Issuance*"), then the number of shares of Parent Common Stock comprising the Stock Consideration shall be increased by the number of shares of Parent Common Stock into which the Subsequent Issuance Securities will be converted in the Merger.

(d) Options.

(i) Immediately after the Effective Time, all options to purchase Company Common Stock then outstanding (individually, an "*Outstanding Employee Option*," and collectively, the "*Outstanding Employee Options*") under the PharmAthene, Inc. 2002 Long-Term Incentive Plan (as amended, the "*Option Plan*") or issued under any other agreement shall, whether vested or unvested, be assumed by Parent. Each such Outstanding Employee Option so assumed by Parent under this Agreement shall continue to have, and be subject to, the same terms and conditions set forth in the Option Plan, option agreements thereunder and other relevant documentation in existence immediately prior to the Effective Time, except that each such Outstanding Employee Option will be converted into an option to purchase that number of shares of Parent Common Stock calculated by multiplying such Outstanding Employee Option by the Share Exchange Ratio and rounding down to the nearest whole share of Parent Common Stock. The per-share exercise price for the shares of Parent Common Stock issuable upon exercise of such assumed Outstanding Employee Option will be equal to the quotient determined by dividing the exercise price per share of Company Common Stock at which such Outstanding Employee Option was exercisable immediately prior to the Effective Time by the Share Exchange Ratio, and rounding the resulting exercise price up to the nearest whole cent.

(ii) Parent shall establish a new option plan containing terms no less favorable to holders of Outstanding Employee Options as applicable to the Outstanding Employee Options and Parent shall reserve for issuance under such plan a sufficient number of shares of Parent Common Stock for delivery upon exercise of Outstanding Employee Options assumed by Parent under this Agreement ***plus*** an additional 3,000,000 shares.

(iii) Unless provided for in the option grant or Option Plan of Company, the vesting of each Outstanding Employee Option will not automatically accelerate pursuant to its terms as a result of, or in connection with, the transactions contemplated hereby. Company shall ensure that none of its Board of Directors nor any committee thereof nor any other body or person within its control shall take any discretionary action so as to cause the vesting of any Outstanding Employee Option which does not vest by its terms prior to the Effective Time.

1.10. Merger Sub Stock. Each share of common stock, par value $.0001, of Merger Sub outstanding immediately prior to the Effective Time shall be deemed canceled and converted into and shall represent the right to receive one share of common stock, $.01 par value, of the Surviving Corporation (the "*Surviving Common Stock"*).

1.11. Dissenters' Rights. Notwithstanding Section 1.9(b)(i) and (ii), any shares of Company Common Stock outstanding immediately prior to the Effective Time and held by a person who has not voted in favor of the Merger and who has properly demanded in writing appraisal for such shares in accordance with Section 262 of the DGCL (the "*Dissenting Shares*") shall not be converted into the right to receive the Merger Consideration or be entitled to cash in lieu of fractional shares of Parent Common Stock or any dividends or other distributions pursuant to this Article I unless and until the holder thereof ("*Dissenting Stockholder*") shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to appraisal of such shares of Company Common Stock held by such holder under Section 262 of the DGCL, and any Dissenting Stockholder shall be entitled to receive only the payment provided by Section 262 of the DGCL with respect to shares of Company Common Stock owned by such Dissenting Stockholder. If any person who otherwise would be deemed a Dissenting Stockholder shall have failed to properly perfect or shall have effectively withdrawn or lost the right to dissent with respect to any shares of Company Common Stock, such shares of Company Common Stock shall thereupon be treated as though such shares of Company Common Stock had been converted into the right to receive the Merger Consideration pursuant to Section 1.9 hereof. Company shall give Parent (i) prompt notice of any written demands for appraisal, attempted withdrawals of such demands and any other instruments served pursuant to applicable law received by Company relating to stockholders' rights of appraisal and (ii) the opportunity to participate in and direct all negotiations and proceedings with respect to any such demands for appraisal under the DGCL. Company shall not, except with the prior written consent of Parent, make any payment with respect to any demands for appraisals of Dissenting Shares, offer to settle or settle any such demands or approve any withdrawal of any such demands.

1.12. Certain Other Adjustments. If, between the date of this Agreement and the Effective Time, the outstanding Parent Common Stock or Company Common Stock shall have been changed into a different number of shares or different class by reason of any reclassification, recapitalization, stock split, split-up, combination or exchange of shares or a stock dividend or dividend payable in any other securities shall be declared with a record date within such period, or any similar event shall have occurred, the Merger Consideration shall be appropriately adjusted to provide to the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

1.13. Distributions with Respect to Unexchanged Shares. No dividends or other distributions declared or made with respect to shares of Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate for Company Capital Stock (a "*Company Certificate*") with respect to the shares of Parent Common Stock that such holder would be entitled to receive upon surrender of such Company Certificate until such holder shall surrender such Company Certificate. Subject to the effect of applicable laws, following surrender of any such Company Certificate, there shall be paid to such holder of shares of Parent Common Stock issuable in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date prior to such surrender payable with respect to such shares of Parent Common Stock and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Parent Common Stock.

1.14. No Further Ownership Rights in Company Capital Stock. The Merger Consideration delivered or deliverable to the holders of Company Capital Stock in accordance with the terms of this Article I shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the shares of Company Capital Stock. Until surrendered as contemplated by this Agreement, each Company Certificate representing Company Capital Stock shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender solely the Merger Consideration (and any cash to be paid pursuant hereto for fractional shares). In addition, until surrendered as contemplated by this Agreement, each PharmAthene Note shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender solely an 8% Convertible Note hereunder and no further interest shall accrue on the PharmAthene Notes after the Effective Time.

1.15. No Fractional Shares of Parent Common Stock.

(a) *Fractional Shares.* No certificates or scrip representing fractional shares of Parent Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of Company Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Parent.

(b) *Cash for Fractional Shares.* Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Company Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock multiplied by (ii) the closing price for a share of Parent Common Stock on The American Stock Exchange LLC (the "*AMEX*") on the date of the Effective Time or, if such date is not a Business Day, the Business Day immediately before the date on which the Effective Time occurs.

1.16. No Liability. None of Parent, Merger Sub, Company or the Surviving Corporation shall be liable to any Person (as defined in Section 2.3(z)) in respect of any Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

1.17. Surrender of Certificates. Upon surrender of Company Certificates at Closing, the holders of such Company Certificates shall receive in exchange therefor Merger Consideration in accordance with Schedule 1.9(b)(i) attached hereto, as amended if applicable, and the Company Certificates surrendered shall be canceled. Until so surrendered, outstanding Company Certificates shall be deemed, from and after the Effective Time, to evidence only the right to receive the applicable Merger Consideration issuable pursuant hereto and the Allocation Agreement.

1.18. Lost, Stolen or Destroyed Certificates. If any Company Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Company Certificate to be lost, stolen or destroyed, Parent shall issue in exchange for such lost, stolen or destroyed certificate the Merger Consideration payable in exchange therefor; provided, however, that as a condition precedent to the issuance of such Merger Consideration, the holder of such lost, stolen or destroyed Company Certificates shall indemnify Parent against any claim that may be made against Parent or the Surviving Corporation with respect to the Company Certificates alleged to have been lost, stolen or destroyed.

1.19. Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the Merger Consideration payable pursuant to this Agreement to any holder of shares of Company Common Stock such amounts as are required to be deducted and withheld with respect to the making of such payment under the Code and the rules and Treasury Regulations promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes under this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be, and such amounts shall be delivered by the Surviving Corporation or Parent, as the case may be, to the applicable taxing authority.

1.20. Further Assurances. If at any time after the Effective Time the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments or assurances or any other acts or things are necessary, desirable or proper (a) to vest, perfect or confirm, of record of otherwise, in the Surviving Corporation its right, title or interest in, to or under any of the rights, privileges, powers, franchises, properties or assets of either Company or Merger Sub or (b) otherwise to carry out the purposes of this Agreement, the Surviving Corporation and its proper officers and directors or their designees shall be authorized to execute and deliver, in the name and on behalf of either Company or Merger Sub, all such deeds, bills of sale, assignments and assurances and do, in the name and on behalf of Company or Merger Sub, all such other acts and things necessary, desirable or proper to vest, perfect or confirm its rights, title or interest in, to or under any of the rights, privileges, powers, franchises, properties or assets of Company or Merger Sub, as applicable, and otherwise to carry out the purposes of this Agreement.

1.21. Stock Transfer Books. The stock transfer books of Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of shares of Company Capital Stock thereafter on the records of Company. On or after the Effective Time, any Company Certificate presented to Parent for any reason shall be converted into the Merger Consideration with respect to the shares of Company Capital Stock formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock to which the holders thereof are entitled and any dividends or other distributions to which the holders thereof are entitled.

1.22. Tax Consequences. For U.S. federal income tax purposes, the parties intend that the Merger be treated as a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Code, and that this Agreement shall be, and is hereby, adopted as a plan of reorganization for purposes of Section 368 of the Code. Accordingly, unless otherwise required by Law (as defined in Section 2.3(z)), no party shall take any action that reasonably could be expected to jeopardize the treatment of the Merger as a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Code, and the parties shall not take any position on any Tax Return (as defined herein) or in any proceeding relating to the Tax consequences of the Merger inconsistent with this Section 1.22. Notwithstanding the forgoing, the parties understand and agree that only the Stock Consideration portion of the Merger Consideration shall be deemed eligible for a "tax free" exchange under Section 368 of the Code.

1.23. Escrow. As the sole remedy for the indemnity obligations set forth in Article VIII hereof, at the Closing, an aggregate of 1,375,000 shares of Parent Common Stock issued or issuable as a result of the Merger (the "*Escrow Shares*") shall be deposited into escrow to be held during the period commencing on the Closing Date and ending on the one year anniversary thereof, which shares shall be allocated among the holders of Company Capital Stock and of Company Options and Company Warrants in accordance with the terms and conditions of the Allocation Agreement and the Escrow Agreement to be entered into between Parent, Stockholders' Representative (as defined in Article VIII) and Continental Stock Transfer & Trust Company, as escrow agent, in substantially the form of Exhibit B (the "*Escrow Agreement*").

1.24. Rule 145. All shares of Parent Common Stock issued pursuant to this Agreement to "affiliates" of Company identified on Schedule 1.24 attached hereto will be subject to certain resale restrictions under Rule 145 promulgated under the Securities Act (as defined herein) and all certificates representing such shares shall bear an appropriate restrictive legend.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

2.1. Representations and Warranties of Parent. Parent represents and warrants to Company, that the statements contained in this Section 2.1 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 2.1), except as set forth in the disclosure schedule to be delivered to Company by Parent on the date hereof and initialed by the parties (the *"Parent Disclosure Schedule"*). Disclosures made in the Parent Disclosure Schedule shall not be deemed to constitute additional representations or warranties of Parent but set forth disclosures, exceptions and exclusions called for under this Agreement provided they are set forth with reasonable particularity and describe the relevant facts in reasonable detail. The Parent Disclosure Schedule will be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Section 2.1.

(a) *Organization, Standing and Power.* Parent is a corporation duly organized, validly existing and in good standing (as defined in Article X) under the laws of the State of Delaware, has the requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Parent is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary, except for such failures to be so duly qualified or licensed and in good standing that could not reasonably be expected to have a Material Adverse Effect (as defined in Article X). Complete and correct copies of the certificate of incorporation and bylaws of Parent, as amended and currently in effect, have been provided to Company and Parent is not in violation of any of the provisions of such organization documents. Merger Sub is a newly-formed single purpose entity which has been formed solely for the purposes of the Merger and has not carried on, and prior to the Closing will not carry on, any business or engaged in any activities other than those reasonably related to the Merger. Except for Merger Sub, which is a direct, wholly-owned subsidiary of Parent, Parent has no subsidiaries and does not own, directly or indirectly, any equity, profit or voting interest in any person or has any agreement or commitment to purchase any such interest and Parent has not agreed and is not obligation to make nor is bound by any written, oral or other agreement, contract, subcontract, lease, binding understanding, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan, commitment or undertaking of any nature, as of the date hereof or as may hereafter be in effect under which it may become obligated.

(b) *Capital Structure*. The authorized capital stock of Parent consists of (i) 100,000,000 shares of Parent Common Stock, of which 11,650,000 shares were outstanding as of September 30, 2006 and (ii) 1,000,000 shares of preferred stock, $.0001 par value, none of which are outstanding. No shares of Parent Common Stock have been issued between August 16, 2005 and the date hereof. All issued and outstanding shares of the capital stock of Parent are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock is entitled to (or has been issued in violation of) preemptive rights. As of the date hereof, there are (i) options with an exercise price of $10.00 per unit to purchase up to 225,000 units issued to the underwriter in Parent's initial public offering completed pursuant to a final prospectus of Parent, dated July 28, 2006, as filed under the Securities Act (the "*IPO*"), each unit consisting of a single share of Parent Common Stock and a single warrant to purchase a single share of Parent Common Stock, and (ii) 9,400,000 outstanding warrants with an exercise price of $6.00 per share issued in the IPO (the "*Parent Warrants*") and no other issued or outstanding rights to acquire capital stock from Parent. All outstanding shares of Parent Common Stock and all outstanding Parent Warrants have been issued and granted in compliance with (x) all applicable securities laws and (in all material respects, other applicable laws and regulations, and (y) all requirements set forth in any applicable Parent contract. Parent has delivered to Company complete and correct copies of the Parent Warrants including all documents relating thereto. All shares of Parent Common Stock to be issued in connection with the Merger and the other transactions contemplated hereby will, when issued in accordance with the terms hereof, have been duly authorized, be validly issued, fully paid and non-assessable, free and clear of all Liens (as defined in Article X). Except as set forth in Section 2.1(b) of the Parent Disclosure Schedule, or as contemplated by this Agreement, there are no registration rights and there is no voting trust, proxy, rights plan, anti-takeover plan or other agreements or understandings to which Parent is a party or by which the Parent is bound with respect to any equity securities of any class of Parent.

(c) *Authority; No Conflicts*.

(i) Parent has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, including, without limitation, the issuance of the shares of Parent Common Stock to be issued in the Merger (the "*Share Issuance*"). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Parent and no other corporate proceedings on the part of Parent are necessary to authorize this Agreement or to consummate the transactions contemplated hereby other than the Parent Stockholder Approval (as defined in Section 6.1(b)). This Agreement has been duly and validly executed and delivered by Parent and, assuming that this Agreement constitutes a valid and binding agreement of Company, constitutes a valid and binding agreement of Parent, enforceable against Parent in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement by Parent do not, and the consummation by Parent of the Merger and the other transactions contemplated hereby will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a Lien on any assets (any such conflict, violation, default, right of termination, amendment, cancellation or acceleration, loss or creation, is hereinafter referred to as a "*Violation*") pursuant to:

(A) any provision of the certificate of incorporation or bylaws of Parent; or

(B) except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent, and subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or its properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any supranational, national, state, municipal, local or foreign government, any instrumentality, subdivision, tribunal, court, arbitrator, administrative agency or commission or other authority or instrumentality thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority (a "*Governmental Entity*") or expiry of any related waiting period is required by or with respect to Parent in connection with the execution and delivery of this Agreement by Parent or Merger Sub or the consummation of the Merger and the other transactions contemplated hereby, except for those required under or in relation to:

(A) state securities or "blue sky" laws;

(B) the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the "*Securities Act*");

(C) the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "*Exchange Act*");

(D) the DGCL with respect to the filing of the Certificate of Merger;

(E) Canadian provincial securities laws relating to the resale of the Parent Common Stock issued to security holders of the Company resident in Canada; and

(F) such consents, approvals, orders, authorizations, registrations, declarations and filings and expiry of waiting periods the failure of which to make or obtain or expire would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent.

For purposes of this Agreement, consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (E) are hereinafter referred to as "*Necessary Consents*."

(iv) The Board of Directors of Parent, at a meeting duly called and held, duly and unanimously adopted resolutions (A) approving and declaring advisable this Agreement and the transactions contemplated hereby, (B) determining that the terms of the Merger and the transactions contemplated thereby are fair to and in the best interests of Parent and its stockholders, (C) determining that the fair market value of Company is equal to at least 80% of Parent's net assets and (D) recommending that Parent's stockholders approve the Merger and the transactions contemplated thereby.

(v) The only vote of holders of any class or series of Parent capital stock necessary to approve this Agreement and the transactions contemplated hereby is the approval and adoption by the holders of a majority of the outstanding publicly-held shares of Parent Common Stock; *provided*, *however*, that the Parent may not consummate the Merger if the holders of 20% or more in interest of the Parent Common Stock issued in the IPO ("*IPO Shares*") shall have demanded that Parent convert such shares into cash pursuant to the Parent's amended and restated certificate of incorporation ("*Parent Charter*").

(d) *Reports and Financial Statements*.

(i) Parent has filed all required registration statements, reports, schedules, forms, statements and other documents required to be filed by it with the SEC since July 28, 2005 (collectively, as they have been amended since the time of their filing and including all exhibits thereto, the "*Parent SEC Reports*"). None of the Parent SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or the Closing Date, then on the date of such filing), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Except as set forth on Section 2.1(d) of the Parent Disclosure Schedule, each of the financial statements (including the related notes) included in the Parent SEC Reports presents fairly, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of Parent as of the respective dates or for the respective periods set forth therein, all in conformity with generally accepted accounting principles in the United States ("*GAAP*") applied on a consistent basis throughout the periods involved except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to normal and recurring adjustments that were not or are not expected to be material in amount, and lack footnote disclosure. All of such Parent SEC Reports (including any financial statements included or incorporated by reference therein), as of their respective dates (and as of the date of any amendment to the respective Parent SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except (A) to the extent reflected in the balance sheet of Parent included in the Parent SEC Report last filed prior to the date hereof or (B) incurred in the ordinary course of business since the date of the balance sheet referred to in the preceding clause (A), Parent does not have any liabilities or obligations of any nature, whether known or unknown, absolute, accrued, contingent or otherwise and whether due or to become due, that have or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent.

(e) *Information Supplied*.

(i) None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Proxy Statement to be filed with the SEC by Parent in connection with the Merger, or any of the amendments or supplements thereto (as defined below) will, at the time such documents are filed with the SEC, or at any time they are amended or supplemented, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. Such documents will each comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) Notwithstanding the foregoing provisions of this Section 2.1(e), no representation or warranty is made by Parent with respect to statements made or incorporated by reference in the Proxy Statement based on information not supplied by it or Merger Sub.

(f) *Trust Funds; Liquidation*.

(i) Since August 16, 2005, Parent has had at least $67,928,000, plus accrued interest (the "*Trust Fund*"), invested in U.S. government securities in a trust account at a New York branch of JP Morgan Chase (the "*Trust Account*"), held in trust by Continental Stock Transfer & Trust Company (the "*Trustee*") pursuant to the Investment Management Trust Agreement dated as of July 28, 2005, between Parent and the Trustee (the "*Trust Agreement*"). Upon consummation of the Merger and notice thereof to the Trustee, the Trust Account will terminate and the Trustee shall thereupon be obligated to release as promptly as practicable to Parent the Trust Fund held in the Trust Account, which Trust Fund will be free of any Lien whatsoever and, after taking into account any funds paid to holders of IPO Shares who shall have demanded that Parent convert their IPO Shares into cash pursuant to the Parent Charter shall be an amount at least equal to $54,342,400.

(ii) Effective as of the Effective Time, the obligations of Parent to dissolve or liquidate within the specified time period contained in the Parent Charter will terminate, and effective as of the Effective Time Parent shall have no obligation whatsoever to dissolve and liquidate the assets of Parent by reason of the consummation of the Merger or the transactions contemplated thereby, and following the Effective Time no Parent stockholder shall be entitled to receive any amount from the Trust Account except to the extent such stockholder votes against the approval of this Agreement and the transactions contemplated thereby and demands, contemporaneous with such vote, that Parent convert such stockholder's shares of Parent Common Stock into cash pursuant to the Parent Charter.

(g) *Absence of Certain Changes or Events.* Except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, since December 31, 2005, there has not been any change, circumstance or event which has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent, nor has there by (i) any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of any class or series of its capital stock or any purchase, redemption or other acquisition by Parent of any class or series of its capital stock or any other securities of Parent, (ii) any split, combination or reclassification of any capital stock, (iii) any granting by Parent of any increase in compensation or fringe benefits and any granting by Parent of any increase in severance or termination pay or any entry by Parent into any currently effective employment, severance, termination or indemnification agreement, (iv) any material change by Parent in its accounting methods, principles or practices except as required by concurrent changes in U.S. GAAP, (v) any change in auditors of Parent, or (vi) any issuance of Parent capital stock.

(h) *Investment Company Act*. Parent is not, and will not be after the Effective Time, an "*investment company*" or a person directly or indirectly "*controlled*" by or acting on behalf of an "*investment company*", in each case within the meaning of the Investment Company Act of 1940, as amended.

(i) *Litigation.* There are no claims, suits, actions or proceedings pending or to Parent's Knowledge (as defined in Article X), threatened against Parent, before any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator that seeks to restrain or enjoin the consummation of the transactions contemplated by this Agreement or which could reasonably be expected, either singularly or in the aggregate with all such claims, actions or proceedings, to have a Material Adverse Effect on Parent or have a Material Adverse Effect on the ability of the parties hereto to consummate the Merger.

(j) *Employees; Employee Benefit Plans.* Parent currently does not have and never has had any employees in Canada. Parent does not maintain, and has no liability under, any plan, and neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment (including severance, unemployment compensation, golden parachute, bonus or otherwise) becoming due to any stockholder, director or employee of Parent, or (ii) result in the acceleration of the time of payment or vesting of any such benefits.

(k) *No Undisclosed Liabilities.* Except as set forth in Section 2.1(k) of the Parent Disclosure Schedule, Parent has no liabilities (absolute, accrued, contingent or otherwise) of a nature required to be disclosed on a balance sheet or in the related notes to the financial statements included in Parent SEC Reports which are, individually or in the aggregate, material to the business, results of operations or financial condition of Parent, except (i) liabilities provided for in or otherwise disclosed in Parent SEC Reports filed prior to the date hereof, and (ii) liabilities incurred since September 30, 2006 in the ordinary course of business, none of which would have a Material Adverse Effect on Parent. Merger Sub has no assets or properties of any kind, does not now conduct and has never conducted any business, and does not now have and will not have at the Closing any obligations or liabilities of any nature whatsoever except such obligations and liabilities as are imposed under this Agreement.

(l) *Title to Property.* Except as set forth in Section 2.1(l) of the Parent Disclosure Schedule, Parent does not own or lease any real property or personal property. Except as set forth in Section 2.1(l) of the Parent Disclosure Schedule, there are no options or other contracts under which Parent has a right or obligation to acquire or lease any interest in real property or personal property.

(m) *Taxes*.

(i) Parent has timely filed all Tax Returns required to be filed by Parent with any Tax authority prior to the date hereof. All such Tax Returns are true, correct and complete in all material respects. Parent has paid all Taxes shown to be due on such Tax Returns.

(ii) All Taxes that Parent is required by law to withhold or collect have been duly withheld or collected, and have been timely paid over to the proper governmental authorities to the extent due and payable.

(iii) Parent has not been delinquent in the payment of any material Tax nor is there any material Tax deficiency outstanding, proposed or assessed against Parent, nor has Parent executed any unexpired waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax (as defined in Section 2.3(k)).

(iv) No audit or other examination of any Tax Return of Parent by any Tax authority is presently in progress, nor has Parent been notified of any request for such an audit or other examination.

(v) No adjustment relating to any Returns filed by Parent has been proposed in writing, formally or informally, by any Tax authority to Parent or any representative thereof.

(vi) Parent has no liability for any material unpaid Taxes which have not been accrued for or reserved on Parent's balance sheets included in the audited financial statements for the most recent fiscal year ended, whether asserted or unasserted, contingent or otherwise, which is material to Parent, other than any liability for unpaid Taxes that may have accrued since the end of the most recent fiscal year in connection with the operation of the business of Parent in the ordinary course of business, none of which is material to the business, results of operations or financial condition of Parent.

(vii) Parent has not taken any action and does not know of any fact, agreement, plan or other circumstance that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(n) *Environmental Matters.* Except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect: (i) Parent has, to Parent's Knowledge, complied with all applicable Environmental Laws (as defined in Section 2.3(s); (ii) Parent has not received any notice, demand, letter, claim or request for information alleging that Parent may be in violation of or liable under any Environmental Law; and (iii) Parent is not subject to any orders, decrees, injunctions or other arrangements with any governmental entity or subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law.

(o) *Brokers.* Except as set forth in Section 2.1(o) of the Parent Disclosure Schedule, Parent has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agent's commissions or any similar charges in connection with this Agreement or any transactions contemplated hereby.

(p) *Intellectual Property.* Parent does not own, license or otherwise have any right, title or interest in any Intellectual Property Rights (as defined in Section 2.3(t)).

(q) *Agreements, Contracts and Commitments*.

(i) Except as set forth in the Parent SEC Reports filed prior to the date of this Agreement, there are no contracts, agreements, leases, mortgages, indentures, notes, bonds, liens, license, permit, franchise, purchase orders, sales orders or other understandings, commitments or obligations (including without limitation outstanding offers or proposals) of any kind, whether written or oral, to which Parent is a party or by or to which any of the properties or assets of Parent may be bound, subject or affected, which either (x) creates or imposes a liability greater than $25,000, or (y) may not be cancelled by Parent on less than thirty (30) days' or less prior notice *("Parent Contracts"*). All Parent Contracts are set forth in Section 2.1(q) of the Parent Disclosure Schedule, other than those that are exhibits to the Parent SEC Reports.

(ii) Other than as set forth in Section 2.1(q) of the Parent Disclosure Schedule, each Parent Contract was entered into at arms' length and in the ordinary course, is in full force and effect and is valid and binding upon and enforceable against each of the parties thereto. Correct and complete copies of all Parent Contracts (or written summaries in the case of oral Parent Contracts) and of all outstanding offers or proposals of Parent have been heretofore delivered to Company.

(iii) Neither Parent nor, to Parent's Knowledge, any other party thereto is in breach of or in default under, and no event has occurred which with notice or lapse of time or both would become a breach of or default under, any Parent Contract, and no party to any Parent Contract has given any written notice of any claim of any such breach, default or event, which, individually or in the aggregate, are reasonably likely to have a Material Adverse Effect on Parent. Each agreement, contract or commitment to which Parent is a party or by which it is bound that has not expired by its terms is in full force and effect, except where such failure to be in full force and effect is not reasonably likely to have a Material Adverse Effect on Parent.

(r) *Insurance.* Set forth in Section 2.1(r) of the Parent Disclosure Schedule, is a complete list of all liability insurance coverage maintained by Parent which coverage is in full force and effect.

(s) *Interested Party Transactions.* Except as set forth in the Parent SEC Reports filed prior to the date of this Agreement, no employee, officer, director or stockholder of Parent or a member of his or her immediate family is indebted to Parent nor is Parent indebted (or committed to make loans or extend or guarantee credit) to any of them, other than reimbursement for reasonable expenses incurred on behalf of Parent. To Parent's Knowledge, none of such individuals has any direct or indirect ownership interest in any Person with whom Parent is affiliated or with whom Parent has a material contractual relationship, or any Person that competes with Parent, except that each employee, stockholder, officer or director of Parent and members of their respective immediate families may own less than 5% of the outstanding stock in publicly traded companies that may compete with Parent. To Parent's Knowledge, no officer, director or stockholder or any member of their immediate families is, directly or indirectly, interested in any material contract with Parent (other than such contracts as relate to any such individual ownership of capital stock or other securities of Parent).

(t) *Indebtedness.* Parent has no indebtedness for borrowed money.

2.2. Representations and Warranties of Parent with Respect to Merger Sub. Parent and Merger Sub represent and warrant to Company as follows:

(a) *Organization; Reporting.* Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Merger Sub is a direct, wholly- owned subsidiary of Parent. Merger Sub has never been subject to the reporting requirements of Sections 13(a) and 15(d) of the Exchange Act.

(b) *Corporate Authorization.* Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. Parent, in its capacity as sole stockholder of Merger Sub, has approved this Agreement and the other transactions contemplated hereby as required by the DGCL. This Agreement has been duly executed and delivered by Merger Sub and, assuming that this Agreement constitutes the valid and binding agreement of Company, constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(c) *Non-Contravention.* The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or the bylaws of Merger Sub.

(d) *No Business Activities.* Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Sub has no subsidiaries.

2.3. Representations and Warranties of Company. Company represents and warrants to Parent and Merger Sub that the statements contained in this Section 2.3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 2.3), except as set forth in the disclosure schedule to be delivered by Company to Parent on the date hereof and initialed by the parties (the "*Company Disclosure Schedule"*). Disclosures made in the Company Disclosure Schedule shall not be deemed to constitute additional representations or warranties of Company but set forth disclosures, exceptions and exclusions called for under this Agreement provided that they are set forth with reasonable particularity and describe the relevant facts in reasonable detail. The Company Disclosure Schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Section 2.3 and Company shall make reasonable effort to specifically cross reference all sections where a particular disclosure qualifies or applies.

(a) *Organization, Standing and Power*.

(i) Company is duly organized, validly existing and in good standing under the laws of the State of Delaware and has full corporate power and authority to own or hold under lease the assets and properties which it owns or holds under lease, to conduct its business as currently conducted, to perform all of its obligations under the agreements to which it is a party, including, without limitation, this Agreement, and upon the receipt of authorization of the holders of Company Capital Stock in accordance with the DGCL, to consummate the Merger. Company is in good standing in each other jurisdiction wherein the failure so to qualify, individually or in the aggregate, would have a Material Adverse Effect. The copies of the certificate of incorporation and by-laws of Company which have been delivered to Parent by Company are complete and correct. Company has made available to Parent correct and complete copies of the minutes of all meetings of (w) Company stockholders, (x) the Board of Directors of Company and (y) each committee of the Board of Directors of Company held since inception.

(ii) Company has only one subsidiary, PharmAthene Canada, Inc. (the "*Subsidiary"*). Company does not, directly or indirectly, beneficially or legally own or hold any capital stock or other proprietary interest of an other corporation, partnership, joint venture, business trust or other legal entity. Section 2.3(a) of the Company Disclosure Schedule indicates the jurisdiction of the Subsidiary's incorporation or formation, and Company's direct or indirect ownership thereof. The Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has full corporate power and authority to own or hold under lease the assets and properties which it owns or holds under lease and to perform all its obligations under the agreements to which it is a party and to conduct the Subsidiary's business. The Subsidiary is in good standing in each other jurisdiction wherein the failure so to qualify would, individually or in the aggregate, would have a Material Adverse Effect. Except as set forth on Section 2.3(a) of the Company Disclosure Schedule, all of the outstanding shares of the capital stock of the Subsidiary is owned by Company and is duly authorized and validly issued, fully paid and non-assessable, issued without violation of the preemptive rights of any person, and are owned free and clear of any mortgages, deeds of trust, pledges, liens, security interests or any charges or encumbrances of any nature. Except as set forth on Section 2.3(a) of the Company Disclosure Schedule, no shares of capital stock or other proprietary interest of the Subsidiary is subject to any option, call, commitment or other agreement of any nature, and except as set forth on Section 2.3(a) of the Company Disclosure Schedule, there are no subscriptions, warrants, options, calls, commitments by agreements to which Company or the Subsidiary is bound relating to the issuance or purchase of any shares of capital stock of the Subsidiary. Except as set forth on Section 2.3(a) of the Company Disclosure Schedule, neither Company nor the Subsidiary is party to any agreement or arrangement relating to the voting or control of any capital stock of the Subsidiary, or obligating Company or the Subsidiary to sell any assets of the Subsidiary, which is material to Company's business or condition. The copies of the certificate of incorporation and by-laws, or other instruments of formation, of the Subsidiary, which have been delivered or made available to Parent by Company are complete and correct. Company has made available to Parent correct and complete copies of the minutes of all meetings of (w) stockholders of the Subsidiary, (x) the Board of Directors of the Subsidiary and (y) each committee of the Board of Directors of the Subsidiary held since inception. Each reference to a "*subsidiary*" or "*subsidiaries*" of any person means any corporation, partnership, joint venture or other legal entity of which such person (either above or through or together with any other subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests the holder of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

(b) *Capital Structure*.

(i) The authorized capital stock of Company consists of (i) 147,089,105 shares of Company Common Stock, of which 10,942,906 shares are issued and outstanding and (ii) 105,009,575 shares of Company Preferred Stock, of which (A) 16,442,000 shares have been designated as Series A Convertible Preferred Stock, 16,442,000 of which are issued or outstanding, (B) 65,768,001 shares have been designated as Series B Convertible Preferred Stock, 30,448,147 of which are issued or outstanding, and (C) 22,799,574 shares have been designated as Series C Convertible Preferred Stock, of which 14,946,479 shares are issued and outstanding. There are no other classes of capital stock of Company authorized, issued or outstanding. All of the outstanding shares of Company Capital Stock are, and all outstanding shares of Company Capital Stock issuable upon exercise of Company Options and Company Warrants will be, duly authorized, validly issued and fully paid and non-assessable, issued without violation of the preemptive rights of any person. Except as set forth on Section 2.3(b) of the Company Disclosure Schedule, there are no subscriptions, warrants, options, calls, commitments by or agreements to which Company is bound relating to the issuance, conversion, or purchase of any shares of Company Common Stock, or any other Company Capital Stock. Except as set forth on Section 2.3(b) of the Company Disclosure Schedule, Company is not a party to any agreement or arrangement relating to the voting or control of any of the Company Capital Stock, or obligating Company, directly or indirectly, to sell any asset which is material to the businesses, financial condition, results of operations or prospects of Company and its Subsidiary, taken as a whole (hereinafter referred to as "*Company's business or condition*"). Except as set forth in Section 2.3(b) of the Company Disclosure Schedule, Company has not agreed to register any securities under the Securities Act under any arrangements that would require any such registration as a result of this Agreement or the transactions contemplated hereby or otherwise. All outstanding shares of Company Capital Stock, all outstanding Company Options, and all outstanding Company Warrants have been issued or granted in compliance with all applicable securities laws.

(ii) The authorized capital stock of the Subsidiary (the "Subsidiary Capital Stock") consists of an unlimited number of Class A common shares of which 1,000 shares are issued and outstanding, an unlimited number of Class B common shares of which none are outstanding (of which 466,498 shares issuable upon exercise of warrants), an unlimited number of Class B non-voting preferred shares of which none are issued and outstanding and an unlimited number of Class C non-voting preferred shares of which 2,591,654 are issued and outstanding (and of which 777,496 are issuable upon exercise of warrants). There are no other classes of capital stock of the Subsidiary authorized, issued or outstanding. All of the outstanding shares of Subsidiary Capital Stock are, and all outstanding shares of Subsidiary Capital Stock issuable upon exercise Subsidiary Warrants (as defined below) will be, duly authorized, validly issued and fully paid and non-assessable, issued without violation of the preemptive rights of any person. Except as set forth on Section 2.3(b) of the Company Disclosure Schedule, there are no subscriptions, warrants, options, calls, commitments by or agreements to which the Subsidiary is bound relating to the issuance, conversion, or purchase of any shares of Subsidiary Capital Stock. The Warrants described on Section 2.3(b) of the Company Disclosure Schedule are referred to herein as the "*Subsidiary Warrants*." Except as set forth on Section 2.3(b) of the Company Disclosure Schedule, Subsidiary is not a party to any agreement or arrangement relating to the voting or control of any of the Subsidiary Capital Stock, or obligating Subsidiary, directly or indirectly, to sell any asset which is material to Company's business or condition. Except as set forth in Section 2.3(b) of the Company Disclosure Schedule, Subsidiary has not agreed to register any securities under the Securities Act or like foreign statute, rule or regulation under any arrangements that would require any such registration as a result of this Agreement or the transactions contemplated hereby or otherwise. All outstanding shares of Subsidiary Capital Stock and all outstanding Subsidiary Warrants have been issued or granted in compliance with all applicable securities laws or like foreign statutes, rules or regulations. Upon completion of the Merger, at the Effective Time, Company shall own all of the Subsidiary Capital Stock and there shall not be outstanding any options, warrants or other convertible securities or any other rights to acquire any Subsidiary Capital Stock.

(c) *Authority; No Conflicts*.

(i) Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Company. This Agreement has been duly executed and delivered by Company and, assuming that this Agreement constitutes a valid and binding agreement of Parent and Merger Sub, constitutes a valid and binding agreement of Company, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement by Company does not, and the consummation by Company of the Merger and the other transactions contemplated hereby will not, conflict with, or result in a Violation pursuant to: (A) any provision of the certificate of incorporation or bylaws of Company or (B) except as set forth in Section 2.3(c) of the Company Disclosure Schedule or as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company, and subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Company or its properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or expiry of any related waiting period is required by or with respect to Company in connection with the execution and delivery of this Agreement by Company or the consummation of the Merger and the other transactions contemplated hereby, except the Necessary Consents, the approvals set forth in Section 2.3(c) of the Company Disclosure Schedule and such consents, approvals, orders, authorizations, registrations, declarations and filings and expiry of waiting periods the failure of which to make or obtain or expire would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company.

(iv) The Board of Directors of Company has taken all actions so that the restrictions contained in Section 203 of the DGCL applicable to a "*business combination*" (as defined in Section 203 of the DGCL) will not apply to the execution, delivery or performance of this Agreement or to the consummation of the transactions contemplated by this Agreement.

(v) The Allocation Agreement has been duly and validly executed by Company, and to its Knowledge, each of the other signatories thereto, and constitutes the valid and binding obligation of the parties thereto. There have been no amendments or modifications, written or otherwise, to the Allocation Agreement. Company has delivered to Parent a true and correct copy of the Allocation Agreement.

(d) *Financial Statements.*

(i) Company has heretofore furnished Parent with copies of the following consolidated financial statements of Company and its Subsidiary: (a) consolidated balance sheet as at September 30, 2006; (b) consolidated statements of operations for the year ended on December 31, 2005; (c) a balance sheet (the "*Reference Balance Sheet*") as at September 30, 2006 (the "*Reference Balance Sheet Date*"); (d) a consolidated statement of operations (the "*Reference Income Statement*") for the 9 months ended September 30, 2006 and (e) consolidated audited financial statements for the fiscal years ending December 31, 2005 and December 31, 2004. Company will furnish consolidated audited financial statements for the fiscal years ending December 31, 2006 as soon as they become available and in no event later that February 14, 2007. Except as set forth on Section 2.3(d) to the Company Disclosure Schedule, all such consolidated financial statements are or will be complete and correct, were or will be prepared in accordance with generally accepted accounting principles of the United States ("*GAAP*"), consistently applied throughout the periods indicated, and have been or will be prepared in accordance with the books and records of Company and its Subsidiary, and present or will present fairly the financial position of Company and its Subsidiary at such dates and the results of its consolidated operations and cash flows for the periods then ended, subject to such inaccuracies, if any, which are not material in nature or amount. The consolidated financial statements of Company and its Subsidiary provided or to be provided to Parent pursuant to this Section 2.3(d) are referred to herein as the "*Company Financial Statements*."

(ii) There are no liabilities of or against Company or its Subsidiary of any nature (accrued, absolute or contingent, unasserted, known or unknown, or otherwise), except: (a) as and to the extent reflected or reserved against on the Reference Balance Sheet; (b) as set forth on Section 2.3(d) to the Company Disclosure Schedule; (c) those that are individually, or in the aggregate, not material and were incurred since the Reference Balance Sheet Date in the ordinary course of business consistent with prior practice; or (d) open purchase or sales orders or agreements for delivery of goods and services in the ordinary course of business consistent with prior practice.

(iii) Each of Company and its Subsidiary: maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded timely as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since December 31, 2004, there have been no changes in the internal accounting controls or in other factors that could affect Company's internal accounting controls.

(e) *Information Supplied*. None of the information supplied or to be supplied by Company for inclusion or incorporation by reference in the Proxy Statement (as defined below), at the time such document is filed with the SEC, or at any time it is amended or supplemented, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. Notwithstanding the foregoing, no representation or warranty is made by Company with respect to statements made or incorporated by reference in such documents based on information supplied by Parent or Merger Sub.

(f) *Approval.* i) The Board of Directors of Company, by resolutions duly adopted at a meeting duly called and held and not subsequently rescinded or modified in any way, has unanimously (1) declared that this Agreement, the Merger and the other transactions contemplated hereby are advisable and in the best interests of Company and the stockholders of Company, and (2) approved this Agreement, the Merger and the transactions contemplated hereby. The Board of Directors of Company has approved this Agreement, the Merger, and the transactions contemplated hereby and thereby for purposes of Section 203 of the DGCL, and, except for Section 203 of the DGCL (which does not apply as a result of such approval of the Board of Directors of Company), no other "moratorium," "control share," "fair price," or other state takeover statute applies to this Agreement, the Merger or the transactions contemplated hereby and thereby.

(ii) The affirmative vote or consent of a Requisite Majority of the Company Capital Stock (the "*Required Company Vote*") is the only vote of the holders of any class or series of Company Capital Stock necessary to approve the transactions contemplated hereby.

(g) *Brokers or Finders.* Except as set forth in Section 2.3(g) of the Company Disclosure Schedule, neither Company, nor its Subsidiary, nor any director, officer, agent or employee thereof has employed any broker or finder or has incurred or will incur any broker's, finder's or similar fees, commissions or expenses, in each case in connection with the transactions contemplated by this Agreement.

(h) *Litigation; Permits*.

(i) Except as set forth in Section 2.3(h) of the Company Disclosure Schedule, there is no action, suit, proceeding, or claim, pending or to Company's Knowledge, threatened, and no investigation by any court or government or governmental agency or instrumentality, domestic or foreign, pending or to Company's Knowledge, threatened, against Company or its Subsidiary, before any court, government or governmental agency or instrumentality, domestic or foreign, nor is there any outstanding order, writ, judgment, stipulation, injunction, decree, determination, award, or other order of any court or government or governmental agency or instrumentality, domestic or foreign, against Company or its Subsidiary.

(ii) Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company, Company holds all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities necessary for the operation of the businesses of Company (the "*Company Permits*"). Company is in compliance with the terms of the Company Permits, except where the failure to so comply would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company. The business of Company is not being conducted in violation of, and Company has not received any notices of violations with respect to, any Law, ordinance or regulation of any Governmental Entity, except for actual or possible violations which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company. Since January 1, 2004, Company has timely filed all material regulatory reports, schedules, statements, documents, filings, submissions, forms, registrations and other documents, together with any amendments required to be made with respect thereto, that each was required to file with any Governmental Entity, including state health and regulatory authorities ("*Company Regulatory Filings*") and any applicable Federal regulatory authorities, and have timely paid all Taxes, fees and assessments due and payable in connection therewith, except where the failure to make such filings on a timely basis or payments would not be material to Company. All such Company Regulatory Filings complied in all material respects with applicable Law. All rates, plans, policy forms and terms established or used by Company or its Subsidiary that are required to be filed with and/or approved by Governmental Entities have been so filed and/or approved, the rates charged conform in all material respects to the rates so filed and/or approved and comply in all material respects with the Laws applicable thereto, and to Company's Knowledge, no such premiums are subject to any investigation by any Governmental Entity.

(iii) Persons employed or otherwise contracted with by Company to provide healthcare services hold all material permits, licenses, exemptions, orders and approvals of all Governmental Entities necessary for such Persons to function in the capacity for which they were employed or contracted.

(i) *Absence of Certain Changes or Events.* Since December 31, 2005, Company and its Subsidiary have operated their respective businesses in the ordinary course consistent with past practice. Without limiting the generality of the immediately preceding sentence, except as set forth in Section 2.3(i) of the Company Disclosure Schedule, since December 31, 2005, neither Company nor its Subsidiary has:

(i) amended or otherwise modified its constituting documents or by-laws (or similar organizational documents);

(ii) altered any term of any of its outstanding securities or made any change in its outstanding shares of capital stock or other ownership interests or its capitalization, whether by reason of a reclassification, recapitalization, stock split or combination, exchange or readjustment of shares, stock dividend or otherwise;

(iii) with respect to, any shares of its capital stock or any other of its securities, granted, encumbered, issued or sold, or authorized for grant or encumbrance, issuance or sale, or granted, encumbered, issued or sold any options, warrants, purchase agreements, put agreement, call agreements, participation agreements, subscription rights, conversion rights, exchange rights or other securities, contracts, arrangements, understanding or commitments fixed or contingent that could directly or indirectly, require Company or its Subsidiary to issue, sell, pledge, dispose of or otherwise cause to become outstanding, any of its authorized but unissued shares of capital stock or ownership interests, as appropriate, or any securities convertible into, exchangeable for or carrying a right or option to purchase shares of capital stock, or to create, authorize, issue, sell or otherwise cause to become outstanding any new class of capital stock or ownership interests, as appropriate or entered into any agreement, commitment or understanding calling for any of the above;

(iv) declared, set aside or made any payment, dividend or other distribution upon any capital stock or, directly or indirectly, purchased, redeemed or otherwise acquired or disposed of any shares of capital stock or other securities of or other ownership interests in Company or its Subsidiary;

(v) incurred any liability or obligation under agreements or otherwise, except current liabilities entered into or incurred in the ordinary course of business consistent with past practice; issued any notes or other corporate debt securities or paid or discharged any outstanding indebtedness, except in the ordinary course of business consistent with past practice; or waived any of its respective rights;

(vi) mortgaged, pledged, subjected to any Lien (as hereinafter defined) or granted any security interest in any of its assets or properties; entered into any lease of real property or buildings; or, except in the ordinary course of business consistent with past practice, entered into any lease of machinery or equipment, or sold, transferred, leased to others or otherwise disposed of any tangible or intangible asset or property;

(vii) effected any increase in salary, wages or other compensation of any kind, whether current or deferred, to any employee or agent, other than routine increases in the ordinary course of business consistent with past practice or as was required from time to time by governmental legislation affecting wages (provided, however, that in no event was any such increase in compensation made with respect to any employee or agent earning in excess of $100,000 per annum); made any bonus, pension, option, deferred compensation, or retirement payment, severance, profit sharing, or like payment to any employee or agent, except as required by the terms of plans or arrangements existing prior to such date (provided, however, that in no event was any such payment made with respect to any employee or agent earning in excess of $100,000 per annum); or entered into any salary, wage, severance, or other compensation agreement with a term of one year or longer with any employee or agent or made any contribution to any trust or plan for the benefit of any employee or agent, except as required by the terms of plans or arrangements existing prior to such date; or lost the employment services of any employee whose annual salary exceeded $100,000;

(viii) adopted or, except as required by law, amended, any employee benefit plan other than as necessary in connection with the transactions contemplated hereby;

(ix) entered into any transaction other than in the ordinary course of business consistent with past practice, except in connection with the execution and performance of this Agreement and the transactions contemplated hereby;

(x) terminated or modified any Company Material Contract (as defined below), or received any written notice of termination of any Company Material Contract, except for terminations of Company Material Contracts upon their expiration during such period in accordance with their terms;

(xi) incurred or assumed any indebtedness for borrowed money or guaranteed any obligation or the net worth of any entity or person;

(xii) discharged or satisfied any Lien other than those then required to be discharged or satisfied during such period in accordance with their original terms;

(xiii) paid any material obligation or liability (absolute, accrued, contingent or otherwise), whether due or to become due, except for any current liabilities, and the current portion of any long term liabilities, shown on the Company Financial Statements or incurred since December 31, 2005 in the ordinary course of business consistent with past practice;

(xiv) cancelled, waived or compromised any material debt or claim;

(xv) suffered any damage, destruction, or loss to any of its assets or properties (whether or not covered by insurance) except for damage, destruction or loss occurring in the ordinary course of business which, individually or in the aggregate, would not have a Material Adverse Effect;

(xvi) made any loan or advance to any entity or person other than travel and other similar routine advances to employees in the ordinary course of business consistent with past practice;

(xvii) made any capital expenditures or capital additions or betterments in amounts which exceed $50,000 in the aggregate;

(xviii) purchased or acquired any capital stock or other securities of any other corporation or any ownership interest in any other business enterprise;

(xix) changed its method of accounting or its accounting principles or practices, including any policies or practices with respect to the establishment of reserves for work-in-process and accounts receivable, utilized in the preparation of the Company Financial Statements, other than as required by GAAP;

(xx) instituted or settled any litigation or any legal, administrative or arbitration action or proceeding before any court, government or governmental agency or instrumentality, domestic or foreign, relating to it or any of its properties or assets;

(xxi) made any new elections, changed any current elections or settled or compromised any liability with respect to its Taxes;

(xxii) entered into any agreement or commitment to do any of the foregoing;

(xxiii) suffered any Material Adverse Effect; or

(xxiv) since December 31, 2005, there has been no condition, development or contingency which, so far as reasonably may be foreseen, may, individually or in the aggregate, have a Material Adverse Effect.

(j) *Compliance with Laws and Regulations*.

(i) Company and its Subsidiary have complied with all applicable Laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of Governmental Entities (and all agencies thereof) except where such non-compliance has not and would not have a Material Adverse Effect on their businesses or operations, and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of them alleging any failure so to comply. Company and its Subsidiary hold all licenses and permits, required to be held by them under the laws all jurisdictions in which they operate in order to operate their businesses as currently operated and Company has not received any notice, written or otherwise, of the initiation of proceedings to revoke any such license or permit, except where such failure to hold any such licenses or permits would not have a Material Adverse Effect. Section 2.3(j) of the Company Disclosure Schedule sets forth the names of those states in which Company operates.

(ii) Neither Company nor its Subsidiary has, since its incorporation, entered into a memorandum of understanding, consent decree or similar instrument with any governmental agency or has been the subject of any investigation or legal proceeding, which could have a Material Adverse Effect on its business or operations.

(iii) Neither Company nor any of its respective officers, directors, employees or agents, has directly or indirectly: (A) offered or paid any amount to, or made any financial arrangement with, any of its accounts in order to promote business from such accounts, other than standard pricing or discount arrangements consistent with proper business practices; (B) given, or agreed to give, or is aware that there has been made, or that there is an agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any current account or supplier, source of financing, landlord, sub-tenant, licensee or anyone else; or (C) made, or has agreed to make, any payments to any person with the intention or understanding that any part of such payment was to be used directly or indirectly for the benefit of any current account or employee, supplier or landlord of such current account, or for any purpose other than that reflected in the documents supporting the payments.

(iv) Company and its Subsidiary are in compliance with, and are not in default or violation of, (A) its respective certificate of incorporation and bylaws, (B) any Law or order by which any of its respective assets or properties are bound or affected and (C) the terms of all notes, bonds, mortgages, indentures, contracts, permits, franchises and other instruments or obligations to which it is a party or by which it is or any of its assets or properties are bound or affected, except, in the case of clauses (B) and (C), for any such failures of compliance, defaults and violations which could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Company is in compliance with the terms of all approvals, except where the failure to so comply could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth in the Company Disclosure Schedule or as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, neither Company nor its Subsidiary has received notice of any revocation or modification of any Approval of any Governmental Entity that is material to Company.

(v) The operations of Company and its Subsidiary are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Governmental Entity (collectively, the "*Money Laundering Law*") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving Company with respect to the Money Laundering Laws is pending or, to Company's Knowledge, threatened, except, in each case, as would not reasonably be expected to materially and adversely affect the condition, financial or otherwise, or the earnings, business or operations of Company and its Subsidiary, taken as a whole.

(vi) Company and its Subsidiary are in material compliance with all statutory and regulatory requirements under the Arms Export Control Act (22 U.S.C. 2778), the International Traffic in Arms Regulations (22 C.F.R. § 120 et seq.), the Export Administration Regulations (15 C.F.R. §730 et seq.) and associated executive orders, the laws implemented by the Office of Foreign Assets Controls, United States Department of Treasury and all other domestic or foreign laws relating to export control (collectively, the "*Export Control Laws*") except as would not individually or in the aggregate be material to Company taken as a whole. Company has not received any written communication that alleges that Company is not, or may not be, in compliance with, or has, or may have, any liability under Export Control Laws. Company has all necessary authority under the Export Control Laws to conduct its business substantially in the manner conducted prior to the date hereof and substantially as it is being conducted on the date hereof except as would not, individually or in the aggregate, be material to Company.

(vii) Company is in compliance with all national security obligations, including, without limitation, those specified in the National Industrial Security Program Operating Manual, DOD 5220.22-M (January 1995). To Company's Knowledge, it has not, within the last five (5) years, received any invalidation of a facility clearance or other adverse action of a Governmental Entity with respect to any facility clearance or any adverse determination with respect to personal security clearances for officers, directors or employees of Company.

(k) *Taxes.* Except as set forth in Section 2.3(k) of the Company Disclosure Schedule:

(i) Company and its Subsidiary has timely and accurately filed, or caused to be timely and accurately filed, all Tax Returns required to be filed by it, and has paid, collected or withheld, or caused to be paid, collected or withheld, all amounts of Taxes required to be paid, collected or withheld, other than such Taxes for which adequate reserves have been established and which are being contested in good faith. There are no claims or assessments pending against Company or its Subsidiary for any alleged deficiency in any Tax, there are no pending or, to Company's Knowledge, threatened audits or investigations for or relating to any liability in respect of any Taxes, and Company has not been notified in writing of any proposed Tax claims or assessments against Company or its Subsidiary (other than in each case, claims or assessments for which adequate reserves have been established and which are being contested in good faith). Neither Company nor its Subsidiary has executed any waivers or extensions of any applicable statute of limitations to assess any amount of Taxes. There are no outstanding requests by Company or its Subsidiary for any extension of time within which to file any Tax Return or within which to pay any amounts of Taxes shown to be due on any Tax Return. To the Company's Knowledge, there are no liens for Taxes on the assets of Company or its Subsidiary except for statutory liens for current Taxes not yet due and payable. There are no outstanding powers of attorney enabling any party to represent Company or its Subsidiary with respect to Taxes. Other than with respect to Company or its Subsidiary, neither Company nor its Subsidiary is liable for Taxes of any other Person, or is currently under any contractual obligation to indemnify any person with respect to any amounts of Taxes (except for customary agreements to indemnify lenders or security holders in respect of Taxes), or is a party to any tax sharing agreement or any other agreement providing for payments by Company or its Subsidiary with respect to any amounts of Taxes. Neither Company nor its Subsidiary has engaged in any transaction which requires its participation to be disclosed under Treas. Reg. Sec. 1.6011-4.

(ii) For purposes of this Agreement, the term "*Tax*" shall mean any United States or Canadian federal, national, state, provincial, territorial, local or other jurisdictional income, gross receipts, property, sales, goods and services, use, license, excise, franchise, employment, payroll (including employee withholding taxes), estimated, alternative, or add-on minimum, ad valorem, transfer or excise tax, goods and services or any other tax, custom, duty, governmental fee or other like assessment or charge imposed by any governmental authority, together with any interest or penalty imposed thereon. The term "*Tax Return*" shall mean a report, return or other information (including any attached schedules or any amendments to such report, return or other information) required to be supplied to or filed with a governmental authority with respect to any Tax, including an information return, claim for refund, amended return or declaration or estimated Tax.

(l) *Accounting and Financial Matters.* Since January 1, 2004, except as set forth in Section 2.3(l) of the Company Disclosure Schedule, Company has not received written notice from any Governmental Entity that any of its accounting policies or practices are or may be the subject of any review, inquiry, investigation or challenge by a Governmental Entity. Since January 1, 2004, Company's independent public accounting firm has not informed Company that it has any material questions, challenges or disagreements regarding or pertaining to Company's accounting policies or practices. Since January 1, 2004, no officer or director of Company has received, or is entitled to receive, any material compensation from any entity that has engaged in or is engaging in any material transaction with Company or its Subsidiary. Set forth in Section 2.3(l) of the Company Disclosure Schedule is a list of all off-balance sheet special purpose entities and financing arrangements of Company and its Subsidiary.

(m) *Third-Party Payors*. All contracts with third-party payors were entered into by Company or its Subsidiary in the ordinary course of business. Company and its Subsidiary have properly charged and billed in accordance with the terms of those contracts in all material respects, including, where applicable, billing and collection of all deductibles and co-payments.

(n) *Government Contracts*.

(i) Except as set forth in Section 2.3(n) of the Company Disclosure Schedule, with respect to each contract, agreement, bid or proposal between Company, its Subsidiary and any (A) Governmental Entity, including any facilities contract for the use of government-owned facilities or (B) third party relating to a contract between such third party and any Governmental Entity (each a "*Government Contract"*), (1) Company and its Subsidiary have complied in all material respects with all requirements of all applicable laws, or agreements pertaining to such Government Contract; (2) all representations and certifications executed, acknowledged or set forth in or pertaining to such Government Contract were complete and correct as of their effective dates and Company has complied with all such representations and certifications; (3) neither the United States government nor any prime contractor, subcontractor or other Person has notified Company, in writing or orally, that Company has breached or violated any Law, certification, representation, clause, provision or requirement pertaining to such Government Contract; (4) neither Company nor its Subsidiary has received any notice of termination for convenience, notice of termination for default, cure notice or show cause notice pertaining to such Government Contract; (5) other than in the ordinary course of business, no cost incurred by Company or its Subsidiary pertaining to such Government Contract has been questioned or challenged, is the subject of any audit or investigation or has been disallowed by any Governmental Entity; and (6) no payments due to Company or its Subsidiary pertaining to such Government Contract have been withheld or set off, nor has any claim been made to withhold or set off money, and Company is entitled to all progress or other payments received with respect thereto, except, in the case of (1) through (6) above, as would not be material to Company, taken as a whole.

(ii) Company or to Company's Knowledge, any of its directors, officers, employees or authorized agents is not, or since January 1, 2004 has not been under (A) any civil or criminal investigation or indictment by any Governmental Entity or under investigation by Company or its Subsidiary or (B) administrative investigation or audit by any Governmental Entity in either case with respect to any alleged improper act or omission arising under or relating to any Government Contract.

(iii) There exist (A) no outstanding material claims against Company or its Subsidiary, either by any Governmental Entity or by any prime contractor, subcontractor, vendor or other Person, arising under or relating to any Government Contract, and (B) no material disputes between Company and the United States government under the Contract Disputes Act, as amended, or any other federal statute, or between Company or its Subsidiary, on the one hand, and any prime contractor, subcontractor or vendor on the other, arising under or relating to any Government Contract. Company does not have any interest in any material pending claim against any prime contractor, subcontractor, vendor or other Person arising under or relating to any Government Contract.

(iv) Since January 1, 2004, neither Company nor its Subsidiary has been debarred or suspended from participation in the award of Contracts with the United States government or any other Governmental Entity. To Company's Knowledge, there exist no facts or circumstances that would warrant the institution of suspension or debarment proceedings or the finding of non-responsibility or ineligibility on the part of Company or any of its directors, officers or employees. Company has no Knowledge of any claim, potential claim or potential liability for defective pricing, false statements or false claims with respect to any of their Government Contracts.

(o) *Property Interests*.

(i) Set forth in Section 2.3(o) of the Company Disclosure Schedule attached hereto is a list of every parcel of real estate owned by Company or its Subsidiary and a list of each lease agreement under which Company or its Subsidiary is lessee of, or holds or operates, any real estate owned by any third party (collectively hereinafter referred to as the "*Company Real Properties*"). Company or its Subsidiary has good and marketable title to the properties owned by Company or its Subsidiary set forth on Section 2.3(o) of the Company Disclosure Schedule and all fixtures thereon in fee simple absolute, subject to no Liens. There is no option or right held by any third party to purchase any such properties or any part thereof, or any of the fixtures and equipment thereon. All buildings, driveways and other improvements on such properties, respectively, are within its boundary lines, and no improvements on adjoining properties extend across the boundary lines onto such properties. Each lease agreement described in Section 2.3(o) of the Company Disclosure Schedule is in full force and effect and constitutes a legal, valid and binding obligation of the respective parties thereto. Neither Company nor its Subsidiary is in a default under any such lease agreement, nor to the Company's Knowledge is any other party to any such lease agreement in default thereunder, and no event has occurred, or is alleged to have occurred, which constitutes, or with lapse of time or giving of notice or both would constitute, a default by any party to any such lease agreement or a basis for a claim of force majeure or other claim of excusable delay or non-performance thereunder, other than with respect to any default, event or claim which, individually or in the aggregate, would not have a Material Adverse Effect;

(ii) Except as set forth in Section 2.3(o) of the Company Disclosure Schedule, Company and its Subsidiary have good and marketable title to all of their respective assets and properties, in each case free and clear of all Liens. Company and its Subsidiary lease or own all properties and assets necessary for the operation of their respective businesses as presently conducted, and the assets and properties of Company and its Subsidiary include all of the assets, of every kind and nature, whether tangible or intangible, and wherever located, which are utilized by Company or its Subsidiary in the conduct of their respective businesses. Neither Company nor its Subsidiary have received notice of any violation of, or default under, any Law, ordinance, order, regulation, or governmental or contractual requirement relating to the assets and properties of Company or its Subsidiary which remains uncured or has not been dismissed, other than with respect to any violation which, individually or in the aggregate, would not have a Material Adverse Effect. All leases and licenses pursuant to which Company or its Subsidiary lease or license personal and intangible property from others, are in good standing, valid and effective in accordance with their respective terms, and there is not, under any of such leases or licenses, any existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default, or would constitute a basis for a claim of force majeure or other claim of excusable delay or non-performance) which would result in a Material Adverse Effect. All the tangible personal property owned or leased by Company or its Subsidiary is in good operating condition and repair, subject only to ordinary wear and tear, and conforms in all respects to all applicable Laws, ordinances, orders, regulations or governmental or contractual requirements relating to their operations.

(p) *Affiliate Transactions*. Except (i) for employment relationships between Company or its Subsidiary and employees of Company or its Subsidiary otherwise disclosed pursuant to this Agreement, (ii) for remuneration by Company or its Subsidiary for services rendered as a director, officer or employee of Company or its Subsidiary otherwise disclosed pursuant to this Agreement, or (iii) as set forth in Section 2.3(p) of the Company Disclosure Schedule, (A) neither Company nor its Subsidiary has, and has not since its inception, in the ordinary course of business or otherwise, directly or indirectly, purchased, leased or otherwise acquired any property or obtained any services from, or sold, leased or otherwise disposed of any property or furnished any services to any affiliate of Company or its Subsidiary; (B) neither Company nor its Subsidiary owes any amount to any affiliate of Company or its Subsidiary; (C) no affiliate of Company or its Subsidiary owes any amount to any of Company or its Subsidiary; and (D) no part of the property or assets of any affiliate of Company or its Subsidiary is used by either of Company or its Subsidiary in the conduct or operation of their businesses. No affiliate of Company or its Subsidiary owns any business which is a significant competitor of Company or its Subsidiary.

(q) *Health Insurance Portability and Accountability Act of 1996.* Company is, and Company's business is being conducted, in compliance in all material respects with the Health Insurance Portability and Accountability Act of 1996.

(r) *Off-Balance Sheet Arrangements.* Section 2.3(r) of the Company Disclosure Schedule describes, and Company has delivered to Parent copies of the documentation creating or governing, all securitization transactions and other "off-balance sheet arrangements" (as defined in Item 303(c) of Regulation S-K of the SEC) that existed or were effected by Company since January 1, 2004 in effect on the date hereof.

(s) *Environmental Matters.*

Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

"*Environment*" shall mean air, land, surface soil, subsurface soil, sediment, surface water, groundwater, wetlands and all flora and fauna present therein or thereon.

"*Environmental Conditions*" shall mean any pollution or contamination or threatened pollution or contamination of, or the Release or threatened Release of Hazardous Materials into, the Environment.

"*Environmental Laws*" means all federal, regional, state, county or local Laws, statutes, ordinances, decisional law, rules, regulations, codes, orders, decrees, directives and judgments relating to public health or safety, pollution, damage to or protection of the Environment, Environmental Conditions, Releases or threatened Releases of Hazardous Materials into the Environment or the use, manufacture, processing, distribution, treatment, storage, generation, disposal, transport or handling of Hazardous Materials, including but not limited to, the Federal Water Pollution Control Act, 33 U.S.C. §§ 1231-1387; the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901-6991 (*"RCRA"*); the Clean Air Act, 42 U.S.C. §§7401-7642; the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §§ 9601-9675 *("CERCLA"*); the Toxic Substances Control Act, 15 U.S.C. §§ 2601-2629; the Federal Occupational Safety and Health Act, 29 U.S.C. § 657 et seq. (*"OSHA"*); comparable state laws; and any and all rules and regulations promulgated thereunder.

"*Hazardous Materials*" shall mean any substances, materials or wastes, whether liquid, gaseous or solid, or any pollutant or contaminant, that is infectious, toxic, hazardous, explosive, corrosive, flammable or radioactive, including without limitation, petroleum, polychlorinated biphenyls, asbestos and asbestos containing materials and urea formaldehyde, or that is regulated under, defined, listed or included in any Environmental Laws, including without limitation, CERCLA, RCRA and OSHA.

"*Release*" shall mean any intentional or unintentional release, discharge, burial, spill, leaking, pumping, pouring, emitting, emptying, injection, disposal or dumping into the Environment.

Except as set forth in Section 2.3(s) of the Company Disclosure Schedule:

(i) The respective businesses of Company and its Subsidiary, and the Company Real Properties, are, and at all times have been, in compliance with all applicable Environmental Laws, except for such non-compliance which, individually or in the aggregate, would not have a Material Adverse Effect.

(ii) Company possesses all permits, authorizations, licenses, approvals and consents required under Environmental Laws ("*Environmental Permits*") in order to conduct its business as it is now being conducted. Company is in compliance with all requirements, terms and provisions of such Environmental Permits, except for such non-compliance which, individually or in the aggregate, would not have a Material Adverse Effect.

(iii) Company and its Subsidiary have filed on a timely basis (and updated as required) all reports, disclosures, notifications, applications, pollution prevention, storm water prevention or discharge prevention or response plans or other emergency or contingency plans required to be filed under Environmental Laws with respect to their business and the Company Real Properties.

(iv) Neither Company nor, to Company's Knowledge, its Subsidiary have received any notice that Company, its Subsidiary or any of the Company Real Properties: (1) is in violation of the requirements of any Environmental Permit or Environmental Laws; (2) is the subject of any suit, claim, proceeding, demand, order, investigation or request or demand for information arising under any Environmental Permit or Environmental Laws; or (3) has actual or potential liability under any Environmental Laws, including without limitation, CERCLA, RCRA or any comparable state or local Environmental Laws.

(v) To Company's Knowledge, there are no Environmental Conditions or other facts, circumstances or activities arising out of or relating to the business of Company or its Subsidiary or the use, operation or occupancy by Company or its Subsidiary of any of the Company Real Properties that result or reasonably could be expected to result in (1) any obligation of Company or its Subsidiary to file any report or notice, to conduct any investigation, sampling or monitoring or to effect any environmental cleanup or remediation, whether on-site or offsite; or (2) liability, either to governmental agencies or third parties, for damages (whether to person, property or natural resources), cleanup costs or remedial costs of any kind or nature whatsoever.

(vi) Neither Company nor, to Company's Knowledge, its Subsidiary has transported for storage, treatment or disposal, by contract, agreement or otherwise, or arranged for the transportation, storage, treatment or disposal, of any Hazardous Material at or to any location including, without limitation, any location used for the treatment, storage or disposal of Hazardous Materials.

(t) *Intellectual Property*.

(i) As used in this Agreement, the term "*Intellectual Property Rights*" means all: (i) patents, patent applications, foreign patents and foreign patent applications, inventions and designs, and any registrations thereof with any agency or authority, (ii) trademarks, service marks, trade names, domain names, copyrights and mask works and all registrations and applications to register any of the foregoing with any agency or authority; (iii) trade secrets and confidential business information, whether patentable or unpatentable and whether or not reduced to practice, including all formulae, processes, know-how, technical and clinical data, shop rights, financial, marketing and business data, pricing and cost information, business and marketing plans and customer and supplier lists and information and any media or other tangible embodiment thereof and all descriptions thereof; (iv) all other technology and intangible property, including without limitation computer software and programs in object code or source code form, databases, and documentation and flow charts; and (v) all licenses, grants or other rights running to or from a person relating to any of the foregoing, including material transfer agreements.

(ii) Set forth on Section 2.3(t) of the Company Disclosure Schedule is a true, accurate and complete list of all Intellectual Property Rights owned, licensed or used by Company or its Subsidiary and that are material to the business of Company as presently conducted or as contemplated to be conducted (hereinafter referred to as the "*Company Intellectual Property Rights*"), specifying whether such Intellectual Property Rights are exclusive or non-exclusive to Company or its Subsidiary and including identifying information of all federal, state and foreign registrations of such Intellectual Property Rights or applications for registration thereof (but excluding software licenses that are generally commercially available).

(iii) Company or its Subsidiary owns, is licensed to use, or otherwise has the full legal right to use all of the Company Intellectual Property Rights, free and clear of any Lien. To Company's Knowledge, such Company Intellectual Property Rights are sufficient for the conduct of Company's business as presently conducted and to Company's Knowledge, as contemplated to be conducted, and constitute all of the Intellectual Property Rights owned, licensed or used by Company. Except for the licenses disclosed in Section 2.3(t) of the Company Disclosure Schedule (hereinafter referred to as the "*Company Licenses*"), (A) Company is not bound by or a party to any rights or options (whether or not currently exercisable), licenses or agreements of any kind (other than software licenses that are generally commercially available) with respect to the Company Intellectual Property Rights and (B) to Company's Knowledge, there are no other outstanding rights or options (whether or not currently exercisable), licenses or agreements of any kind relating to Company Intellectual Property Rights. Except under the Company Licenses identified in Section 2.3(t) of the Company Disclosure Schedule, Company is not obligated to pay any royalties or other compensation or expenses (other than fees for software licenses that are generally commercially available), to any third party in respect of its ownership, use or license of any of the Company Intellectual Property Rights. There has been no breach or violation by Company, and to Company's Knowledge there is no breach or violation by any other party to, any Company License that is reasonably likely to give rise to any termination or any loss of rights thereunder.

(iv) Except as set forth in Section 2.3(t) of the Company Disclosure Schedule, to the Company's Knowledge, neither Company's business, as presently conducted or as contemplated to be conducted, nor the current and contemplated products or services of Company infringe, constitute the misappropriation of, or conflict with, any Intellectual Property Rights of any third party. Company is not aware of any claim, and has not received any notice or other communication (in writing or otherwise) of any claim from, any person asserting that Company's business, as presently conducted or as contemplated to be conducted, or any of the current or contemplated products or services of Company infringe or may infringe, constitute the misappropriation of, or conflict with, any Intellectual Property Rights of another person. Company is not aware of any existing or threatened infringement, misappropriation, or competing claim by any third party on the right to use or own any of, the Company Intellectual Property Rights.

(v) Company has taken commercially reasonable measures and precautions to establish and preserve the confidentiality, secrecy and ownership of all Company Intellectual Property Rights with respect to its products and services. Without limiting the generality of the foregoing employees who have had access to confidential or proprietary information of Company have executed and delivered to Company confidentiality agreements in a form customary in the industry in which Company operates. Copies of such agreements have been delivered to Parent, and all of such agreements are in full force and effect. Company is not aware of any violation of the confidentiality of any non-public Company Intellectual Property Rights. Company is not making unlawful use of any confidential information or trade secrets of any third party. To Company's Knowledge, the activities of Company's employees, consultants, or independent contractors on behalf of Company's business, as presently conducted and contemplated to be conducted, do not violate any agreements or arrangements which such employees have with former employers or any other third person. To Company's Knowledge, no current or former employee, officer, director, stockholder, consultant or independent contractor has any right, claim or interest in or with respect to any of the Company Intellectual Property Rights.

(vi) Except as set forth in Section 2.3(t) of the Company Disclosure Schedule, to Company's Knowledge, no third party has infringed, misappropriated or otherwise conflicted with any of the Company Intellectual Property Rights. To Company's Knowledge, there are no third party challenges to the Company Intellectual Property Rights including interferences, reexaminations, oppositions and appeals.

(vii) Except as set forth in Section 2.3(t) of the Company Disclosure Schedule, (i) there is no action, suit, order, claim, or to Company's Knowledge, governmental investigation pending, or, to Company's Knowledge, threatened in writing against Company or affecting Company, relating to the Company Intellectual Property Rights and reasonably likely so as to cause a Material Adverse Effect (or to Company's Knowledge, pending or threatened in writing against any of the officers, directors or employees of Company with respect to Company's business or proposed business activities) at law or in equity, or before or by any governmental department, commission, board, bureau, agency or instrumentality (including, without limitation, any actions, suits, proceedings or investigations with respect to the transactions contemplated by this Agreement); (ii) nor has there been any such actions, suits, orders, claims, or to Company's Knowledge, governmental investigations or claims pending against Company at any time; (iii) to Company's Knowledge, there is no valid basis for any of the foregoing; (v) Company is not subject to any judgment, order or decree of any court or other governmental agency; and (vi) there is no action, suit, proceeding, or investigation by Company currently pending or which Company presently intends to initiate with respect to the transactions contemplated by the Agreement.

(u) *Certain Agreements.* Section 2.3(u) of the Company Disclosure Schedule lists, as of the date hereof, each of the following contracts, agreements or arrangements, whether written or oral, to which Company is a party or by which it is bound (collectively, the "*Company Material Contracts*"):

(i) any "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC);

(ii) all healthcare and clinical testing contracts measured in terms of payments received;

(iii) all Government Contracts;

(iv) promissory notes, loans, agreements, indentures, evidences of indebtedness or other instruments providing for the lending of money, whether as borrower, lender or guarantor, in amounts greater than $100,000 (it being understood that trade payables, ordinary course business funding mechanisms between Company and its customers and providers shall not be considered indebtedness for purposes of this provision);

(v) any contract or other agreement expressly restricting the payment of dividends or the repurchase of stock or other equity;

(vi) collective bargaining contracts;

(vii) material joint venture, partnership agreements or other similar agreements;

(viii) any contract for the pending acquisition, directly or indirectly (by merger or otherwise), of any entity or business;

(ix) any contract, agreement or policy for reinsurance involving ceded insurance premiums of greater than $100,000;

(x) leases for real or personal property involving annual expense in excess of $500,000 and not cancelable by Company (without premium or penalty) within twelve (12) months;

(xi) all contracts to which Company is a party granting any license to intellectual property (other than trade and service marks) and any other license (other than real estate or computer software) having an aggregate value per license, or involving payments to Company, of more than $100,000 on an annual basis;

(xii) all confidentiality agreements (other than in the ordinary course of business), agreements by Company not to acquire assets or securities of a third party or agreements by a third party not to acquire assets or securities of Company;

(xiii) any contract, other than any insured customer contracts or equipment lease, having an aggregate value per contract, or involving payments by or to Company, of more than $100,000 on an annual basis that requires consent of a third party in the event of or with respect to the Merger, including in order to avoid termination or loss of benefits under any such contract;

(xiv) any non-competition agreement or any other agreement or arrangement that by its terms (A) limits or otherwise restricts Company or any successor thereto or (B) would, after the Effective Time, limit or otherwise restrict Company or Parent including the Surviving Corporation or any successor thereto, from engaging or competing in any line of business or in any geographic area;

(xv) any contract or order with or from a Governmental Entity; and

(xvi) all employment contracts, consulting agreements, representative agreements and service contracts to which Company is a party.

Company has previously made available to Parent complete and accurate copies of each Company Material Contract listed, or required to be listed, in Section 2.3(u) of the Company Disclosure Schedule (including all amendments, modifications, extensions, renewals, guarantees or other contracts with respect thereto, but excluding certain names, terms and conditions that have been redacted in compliance with applicable laws governing the sharing of information or otherwise). All of the Company Material Contracts are valid and binding and in full force and effect (except those which are cancelled, rescinded or terminated after the date hereof in accordance with their terms), except where the failure to be in full force and effect, individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect on Company. To Company's Knowledge, no Person is challenging the validity or enforceability of any Company Material Contract, except such challenges which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Company. Company has not, and to Company's Knowledge, as of the date hereof, none of the other parties thereto, have violated any provision of, or committed or failed to perform any act which (with or without notice, lapse of time or both) would constitute a default under the provisions of, any Company Material Contract, except for those violations and defaults which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Company.

(v) *FDA Matters*.

(i) For purposes of this Agreement: (i)"*FDA*" means the United States Food and Drug Administration and corresponding regulatory agencies in other countries and in states of the United States, (ii) "*FDA Clearance and Approval*" means any pre-market notification or pre-market approval application, consent, certificate, registration, permit, license or other authorization, and the filing of any notification, application, report or information, required by the FDA or any other government entity pursuant to any FDA Law, (iii) "*FDA Company Contractor*" means any person with which Company or its Subsidiary formerly or presently had or has any agreement or arrangement (whether oral or written) under which that person has or had physical possession of, or was or is obligated to develop, test, process, investigate, manufacture or produce, any FDA Regulated Product on behalf of Company, (iv) "*FDA Law*" means any statute, regulation, judicial or administrative interpretation, guideline, point-to-consider, recommendation or standard international guidance relating to any FDA Regulated Product, including, without limitation, the Federal Food, Drug, and Cosmetic Act, 21 U.S.C. sec. 301 et seq., the FDA Modernization Act of 1997, Stand Alone Provisions, Pub. L. No. 105-115, 111 Stat. 2295 (1997), and equivalent statutes, regulations and guidance's adopted by countries, international bodies and other jurisdictions, in addition to the United States, where Company has facilities, does business, or directly or through others sells or offers for sale any FDA Regulated Product, and (v) "*FDA Regulated Product*" means any product or component including, without limitation, any medical device, that is studied, used, held or offered for sale for human research or investigation or clinical use.

(ii) Company has not obtained any clearances or approvals from the FDA to conduct its current businesses, to manufacture, hold or sell FDA Regulated Products, and to use and occupy the Company Real Properties.

(iii) Company has no obligations to submit reports and filings to the FDA.

(iv) Except as set forth in Section 2.3(v) to the Company Disclosure Schedule, there is no civil, criminal or administrative action, suit, demand, claim, complaint, hearing, notice of violation, investigation, notice, demand letter, proceeding or request for information pending or any liability (whether actual or contingent) to comply with any FDA Laws. There is no act, omission, event or circumstance of which Company has Knowledge that may give rise to any such action, suit, demand, claim, complaint, hearing, notice of violation, investigations, notice, demand letter, proceeding or request, or any such liability:

against, involving or of Company, or

against, involving or of any other person (including, without limitation, any FDA Company Contractor) that could be imputed or attributed to Company.

(v) There has not been any violation of any FDA Laws by Company in their prior product developmental efforts, or any other Governmental Entity (or any failure to make any such submission or report) that could reasonably be expected to require investigation, corrective action or enforcement action.

(w) *Employee Benefit Plans*.

(i) Except as set forth on Section 2.3(w) of the Company Disclosure Schedule, neither Company nor its Subsidiary maintains, sponsors, contributes to, is required to contribute to, is a party to, or otherwise has or is reasonably expected to have any liability (contingent or otherwise) with respect to (1) any "*employee welfare benefit plan*," as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), (2) any "*employee pension benefit plan*," as defined in Section 3(2) of ERISA, (3) any plan or agreement providing for bonuses, stock options, stock appreciation rights, stock purchase plans or other forms of equity-based compensation, (4) any other plan or agreement involving direct or indirect compensation (including any deferred compensation) other than workers' compensation, unemployment compensation and other government programs, (5) any employment, severance, separation, change of control or other similar contract, arrangement or policy providing for insurance coverage, salary continuation, non-statutory workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, pension, supplemental pension, savings, retirement savings, fringe benefits, deferred compensation, profit-sharing, bonuses, other forms of incentive compensation or post-retirement insurance, compensation or benefits, (6) any other employee benefit plan, arrangement, program, agreement, policy or practice, formal or informal, funded or unfunded, insured or self-insured, that covers any current or former employee of Company or its Subsidiary, or (7) any multiemployer plan (within the meaning of Section 3(37) of ERISA) (hereinafter "*Multiemployer Plan*"). Each plan or agreement required to be set forth on Section 2.3(w) of the Company Disclosure Schedule, other than a Multiemployer Plan, pursuant to the foregoing is referred to herein as a "*Company Benefit Plan*."

(ii) Company has delivered or made available to Parent the following documents with respect to each Company Benefit Plan: (1) correct and complete copies of all documents embodying such Company Benefit Plan, including (without limitation) all amendments thereto and all related trust documents, (2) a written description of any Company Benefit Plan that is not set forth in a written document, (3) the most recent summary plan description, summary of material modifications and other similar descriptive materials distributed to plan participants and beneficiaries, (4) the most recent Internal Revenue Service ("*IRS*") determination letter or similar forms of any applicable foreign jurisdiction, if any, (5) the three most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, and (6) all material written agreements and contracts currently in effect, including (without limitation) administrative service agreements, group annuity contracts and group insurance contracts.

(iii) Each Company Benefit Plan materially complies, and has been maintained and administered in all material respects in compliance with, its terms and with the requirements prescribed by any and all applicable law, including (without limitation) ERISA and the Code. All material contributions, reserves or premium payments required to be made or accrued as of the date hereof to the Company Benefit Plans have been timely made or accrued. Neither Company nor its Subsidiary has taken or failed to take any action with respect to any Company Benefit Plan which might create any material liability on the part of Company or its Subsidiary.

(iv) Neither Company nor its Subsidiary maintains, participates in or contributes to, nor have they ever maintained, participated in, or contributed to, any Multiemployer Plan, a plan described in Section 413 of the Code, or any plan subject to Title IV of ERISA or Section 302 of ERISA. Neither Company nor its Subsidiary has any outstanding or contingent obligations or liabilities (including, without limitation, any withdrawal liability) with respect to a Multiemployer Plan providing pension or other benefits, a plan described in Section 413 of the Code, or any plan subject to Title IV of ERISA or Section 302 of ERISA.

(v) Neither Company nor its Subsidiary is subject to any material liability or penalty under Sections 4975 through 4980B of the Code or Title I of ERISA. With respect to each Benefit Plan which is a "*group health plan*" as defined in Section 5000(b)(1) of the Code and Section 607(l) of ERISA, Company and its Subsidiary have complied in all material respects with the applicable health care continuation requirements in Section 4980B of the Code and in ERISA. Company, and its Subsidiary, and each Company Benefit Plan which is a group health plan has, as of the date hereof, complied in all material respects with the Family and Medical Leave Act of 1993, the Health Insurance Portability and Accountability Act of 1996, the Women's Health and Cancer Rights Act of 1998, the Newborns' and Mothers' Health Protection Act of 1996, and any similar provisions of state law applicable to employees of Company and its Subsidiary. No "*prohibited transaction*," within the meaning of Section 4975(c) of the Code or Sections 406 or 407 of ERISA and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Benefit Plan.

(vi) Except as set forth on Section 2.3(w) of the Company Disclosure Schedule, there is no contract, plan or arrangement covering any employee or former employee of Company or its Subsidiary that, individually or collectively, would give rise to the payment as a result of the transactions contemplated by this Agreement of any amount that would not be deductible by Company or its Subsidiary by reason of Section 280G or 162(m) of the Code.

(vii) No material action, suit or claim (excluding claims for benefits incurred in the ordinary course) has been brought or is pending or, to Company's Knowledge, threatened against or with respect to any Company Benefit Plan, or the assets or any fiduciary thereof (in that person's capacity as a fiduciary of such Company Benefit Plan) and to Company's Knowledge, there are no facts likely to give rise to any such action, suit or claim. There are no audits, inquiries or proceedings pending or, to Company's Knowledge, threatened by the IRS or the United States Department of Labor or corresponding authority in Canada with respect to any Company Benefit Plan, and no Company Benefit Plan has been the subject of any application for relief under the Internal Revenue Service Employee Plans Compliance Resolution System or the Closing Agreement Program, nor has any Company Benefit Plan been the subject of any application for relief under the United States Department of Labor Voluntary Fiduciary Correction Program or Delinquent Filer Voluntary Compliance Program.

(viii) All Company Benefit Plans that are intended to be qualified and exempt from United States federal income taxes under Section 401(a) and Section 501(a), respectively, of the Code, have been the subject of favorable determination letters or in the case of prototype plans, opinion letters, from the IRS which consider the effect of the series of laws commonly known as GUST, and no such determination letter has been revoked nor has revocation been threatened.

(ix) Except for Company Benefit Plans for employees working in Canada, each "*fiduciary*" (within the meaning of Section 3(21)(A) of ERISA) as to each Company Benefit Plan has complied in all material respects with the requirements of ERISA and all other applicable law in respect of each such Company Benefit Plan.

(x) Except as set forth in Section 2.3(w) of the Company Disclosure Schedule, all required employer and employee contributions and premiums under the Company Benefit Plans to the date hereof have been paid or duly accrued, the respective fund or funds established under the Company Benefit Plans are, in all material respects, funded in accordance with all applicable law and such plans, and no material past service funding liabilities exist thereunder.

(xi) Other than any pension benefits payable under the Company Benefit Plans, neither Company nor its Subsidiary is under any obligation to provide benefits or coverage under a Company Benefit Plan to retirees of Company or its Subsidiary or other former employees of Company or its Subsidiary (or the beneficiaries of such retirees or former employees), including, but not limited to, retiree health care coverage (except to the extent mandated by the Consolidated Omnibus Budget Reconciliation Act of 1985).

(xii) Neither Company nor its Subsidiary maintains any voluntary employees' beneficiary association within the meaning of Sections 501(c)(9) and 505 of the Code (a VEBA) with respect to any Company Benefit Plan.

(xiii) No commitments have been made by Company or its Subsidiary to amend any Company Benefit Plan, to provide increased benefits thereunder or to establish any new benefit plan, except as required by applicable laws or as disclosed in Section 2.3(w) of the Company Disclosure Schedule. None of the Company Benefit Plans require or permit retroactive increases or assessments in premiums or payments. Except as set forth in Section 2.3(w) of the Company Disclosure Schedule, all Company Benefit Plans can be amended or terminated without any restrictions and Company or its Subsidiary has the unrestricted power to amend or terminate any of the Company Benefit Plans.

(x) *Labor Matters*. There are no disputes pending or to Company's Knowledge, threatened between Company or its Subsidiary on the one hand and any of their respective employees on the other, and, to Company's Knowledge, there are no organizational efforts currently being made or threatened involving any of such employees. Company has materially complied with all laws relating to the employment of labor, including without limitation, any provisions thereof relating to wages, hours, collective bargaining and the payment of social security and similar taxes, and is not liable for any material arrearage of wages or any taxes or penalties for failure to comply with any of the foregoing.

(y) *Insurance.* As of the date of this Agreement, Company and its Subsidiary maintain insurance policies, and bonding arrangements, covering all of their respective assets and properties, and in each case the various occurrences which may arise in connection with the operation of their respective businesses. Section 2.3(y) of the Company Disclosure Schedule attached hereto sets forth all such policies and bonding arrangements. Such policies and bonding arrangements are in full force and effect, all premiums and other amounts due thereon have been paid, and Company and its Subsidiary have complied with the provisions of such policies and bonding arrangements. There are no notices of any pending or threatened terminations or premium increases with respect to any such policies or bonding arrangements, and such policies and bonding arrangements will not be modified as a result of or terminate or lapse by reason of, the transactions contemplated by this Agreement.

(z) *Absence of Sensitive Payments*. Neither Company nor its Subsidiary, nor any of their respective directors or officers, nor, to Company's Knowledge, any of the employees or agents of Company or its Subsidiary, has directly or indirectly (a) made any contribution or gift which contribution or gift is in violation of any applicable Law, (b) made any bribe, rebate, payoff, influence payment, kickback or other payment to any Person, private or public, regardless of form, whether in money, property or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, (iii) to obtain special concessions or for special concessions already obtained for or in respect of Company or its Subsidiary, or any affiliate of Company or its Subsidiary, or (iv) in violation of any Law or legal requirement, or (c) established or maintained any fund or asset of Company or its Subsidiary, that has not been recorded in the books and records of Company or its Subsidiary. For purposes of this Agreement, the term "*Person*" shall mean an individual, partnership, venture, unincorporated association, organization, syndicate, corporation, limited liability company, or other entity, trust, trustee, executor, administrator or other legal or personal representative or any government or any agency or political subdivision thereto, and the term "*Law*" shall mean any law in any jurisdiction (including common law), statute, code, ordinance, rule, regulation, permit, order, decree or other requirement or guideline.

(aa) *Books and Records*. The books and records of Company and its Subsidiary with respect to Company and its Subsidiary, their operations, employees and properties have been maintained in the usual, regular and ordinary manner, all entries with respect thereto have been accurately made, and all transactions involving Company and its Subsidiary, have been accurately accounted for.

(bb) *Compensation.* Except as disclosed in Section 2.3(cc) of the Company Disclosure Schedule attached hereto, neither Company nor its Subsidiary has any agreement with any employee with regard to compensation, whether individually or collectively, that, with respect to employees located in Canada can be terminated by providing the notice or indemnity required by applicable Canadian federal or provincial law, and set forth in Section 2.3(bb) of the Company Disclosure Schedule attached hereto is a list of all employees of Company and its Subsidiary entitled to receive annual compensation in excess of $100,000 and their respective positions and salaries. No union or other collective bargaining unit has been certified or recognized by Company or its Subsidiary as representing any of their respective employees. Neither Company nor Parent will incur any liability with respect to any payment due or damage suffered by any employee of Company or its Subsidiary, including, but not limited to, any claims for severance, termination benefits or similar claims, by virtue of the operation of the transactions contemplated hereby.

ARTICLE III

COVENANTS RELATING TO CONDUCT OF BUSINESS

3.1. Conduct of Business of Company Pending the Merger. Company covenants and agrees that, during the period from the date hereof to the Effective Time and except as otherwise agreed to in writing by Parent or as expressly contemplated by this Agreement, the business of Company shall be conducted only in, and Company shall not take any action except in, the ordinary course of business and in a manner consistent with past practice and in compliance with applicable laws; and Company, except as expressly contemplated by this Agreement, shall use its commercially reasonable efforts to preserve substantially intact the business organization of Company, to keep available the services of the present officers and employees and to preserve the present relationships of Company with such of the customers, suppliers, licensors, licensees, or distributors with which Company has significant business relations. By way of amplification and not limitation, without the prior written consent of Parent (which shall not be unreasonably withheld or delayed), Company shall not, between the date of this Agreement and the Effective Time, except as set forth in Section 3.1 of the Company Disclosure Schedule, directly or indirectly do, or propose or commit to do, any of the following:

(a) Amend its certificate of incorporation or bylaws or equivalent organizational documents;

(b) Except for (i) a Company Subsequent Issuance, (ii) the issuance of stock options under the Option Plan to employees and consultants of Company and (iii) the issuance of warrants in connection with certain contemplated financing as described in Section 3.1 of the Company Disclosure Schedule, issue, deliver, sell, pledge, dispose of or encumber, or authorize or commit to the issuance, sale, pledge, disposition or encumbrance of, any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest (including, but not limited to, stock appreciation rights or phantom stock), of Company;

(c) Declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of the Company Capital Stock;

(d) Acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division or line of business;

(e) Modify its current investment policies or investment practices in any material respect except to accommodate changes in applicable Law;

(f) Transfer, sell, lease, mortgage, or otherwise dispose of or subject to any Lien any of its assets, including the Company Capital Stock (except (i) by incurring Permitted Liens (as defined in Article X); and (ii) equipment and property no longer used in the operation of Company's business) other than in the ordinary course of business consistent with past practice;

(g) Except as may be required as a result of a change in Law or in generally accepted accounting or actuarial principles, make any change to the accounting practices or principles or reserving or underwriting practices or principles used by it;

(h) Settle or compromise any pending or threatened suit, action or claim (other than the payment of health benefit claims on behalf of customers of Company) involving a payment by Company in excess of $100,000;

(i) Adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization of Company;

(j) Fail to use commercially reasonable efforts to maintain in full force and effect the existing insurance policies covering Company or its properties, assets and businesses or comparable replacement policies;

(k) Authorize or make capital expenditures in excess of $250,000;

(l) (i) Make any material Tax election or settle or compromise any material federal, state, local or foreign Tax liability, change any annual tax accounting period, change any material method of Tax accounting, enter into any closing agreement relating to any Tax, or surrender any right to claim a Tax refund or (ii) consent, without providing advance notice to Parent, to any extension or waiver of the limitations period applicable to any Tax claim or assessment;

(m) Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of the Company Capital Stock or its stock options or debt securities;

(n) (i) Repay or retire any indebtedness for borrowed money or repurchase or redeem any debt securities; (ii) except as set forth in Section 3.1 of the Company Disclosure Schedule incur any indebtedness for borrowed money (including pursuant to any commercial paper program or credit facility of Company) or issue any debt securities; or (iii) assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans, advances or capital contributions to, or investments in, any other Person, other than providers of Company in the ordinary course of business consistent with past practice;

(o) Except as set forth in Section 3.1 of the Company Disclosure Schedule, enter into or renew, extend, materially amend or otherwise materially modify (i) any Company Material Contract, or (ii) any other contract or agreement (with "other contract or agreement" being defined for the purposes of this subsection as a contract or agreement which involves Company incurring a liability in excess of $250,000 and which is not terminable by Company without penalty upon one year or less notice);

(p) Except as set forth in Section 3.1 of the Company Disclosure Schedule and except to the extent required under this Agreement or pursuant to applicable law, increase the compensation or fringe benefits of any of its directors, officers or employees, except for increases in salary or wages of officers and employees of Company in the ordinary course of business in accordance with past practice, or grant any severance or termination pay not currently required to be paid under existing severance plans or enter into, or amend, any employment, consulting or severance agreement or arrangement with any present or former director, officer or other employee of Company, or establish, adopt, enter into or amend or terminate any collective bargaining, bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, welfare, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any directors, officers or employees, except for any plan amendments to comply with Section 409A of the Code (provided that any such amendments shall not materially increase the cost of such plan to Company);

(q) Grant any license with respect to Intellectual Property Rights other than non-exclusive licenses granted in the ordinary course of business;

(r) Take any action or omit to take any action that would reasonably be expected to cause any Intellectual Property Rights used or held for use in its business to become invalidated, abandoned or dedicated to the public domain;

(s) Take or fail to take any action that would prevent the Merger from qualifying as reorganization within the meaning of Section 368(a) of the Code;

(t) Except as set forth in Section 3.1 of the Company Disclosure Schedule, effectuate a "plant closing" or "mass layoff" as those terms are defined in the Worker Adjustment and Retraining Notification Act (WARN), affecting in whole or in part any site of employment, facility, operating unit or employee of Company;

(u) Pay, discharge or satisfy any claims, liabilities or obligations (absolute accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business and consistent with past practice, of liabilities reflected or reserved against in the financial statements of Company or incurred in the ordinary course of business and consistent with past practice;

(v) Enter into any transaction with, or enter into any agreement, arrangement, or understanding with any of Company's affiliates that would be required to be disclosed pursuant to Item 404 of SEC Regulation S-K; or

(w) Take, or offer or propose to take, or agree to take in writing or otherwise, any of the actions described in Sections 3.1(a) through 3.1(v) or any action which would result in any of the conditions set forth in Article VI not being satisfied or would materially delay the Closing.

3.2. Conduct of Business of Parent Pending the Merger. Parent covenants and agrees that, during the period from the date hereof to the Effective Time and except as otherwise agreed to in writing by Company, Parent shall not:

(a) Amend the Parent Charter or bylaws or equivalent organizational documents;

(b) Issue, deliver, sell, pledge, dispose of or encumber, or authorize or commit to the issuance, sale, pledge, disposition or encumbrance of, any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest (including, but not limited to, stock appreciation rights or phantom stock), of Parent;

(c) Declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock;

(d) Acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division or line of business;

(e) Modify its current investment policies or investment practices in any material respect except to accommodate changes in applicable Law;

(f) Transfer, sell, lease, mortgage, or otherwise dispose of or subject to any Lien any of its assets, including capital stock other than in the ordinary course of business consistent with past practice;

(g) Except as may be required as a result of a change in Law or in generally accepted accounting or actuarial principles, make any change to the accounting practices or principles or reserving or underwriting practices or principles used by it;

(h) Settle or compromise any pending or threatened suit, action or claim involving a payment by Parent in excess of $100,000;

(i) Adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization of Parent;

(j) Fail to use commercially reasonable efforts to maintain in full force and effect the existing insurance policies covering Parent or its properties, assets and businesses or comparable replacement policies;

(k) Authorize or make capital expenditures;

(l) (i) Make any material Tax election or settle or compromise any material federal, state, local or foreign Tax liability, change any annual tax accounting period, change any material method of Tax accounting, enter into any closing agreement relating to any Tax, or surrender any right to claim a Tax refund or (ii) consent, without providing advance notice to Company, to any extension or waiver of the limitations period applicable to any Tax claim or assessment;

(m) Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of its capital stock, stock options or debt securities;

(n) (i) Repay or retire any indebtedness for borrowed money or repurchase or redeem any debt securities; (ii) incur any indebtedness for borrowed money or issue any debt securities; or (iii) assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans, advances or capital contributions to, or investments in, any other Person, other than providers of Parent in the ordinary course of business consistent with past practice;

(o) Except as set forth in Section 3.2 of the Parent Disclosure Schedule, enter into or renew, extend, materially amend or otherwise materially modify (i) any material contract, or (ii) any other contract or agreement (with *"other contract or agreement"* being defined for the purposes of this subsection as a contract or agreement which involves Parent incurring a liability in excess of $250,000 and which is not terminable by Parent without penalty upon one year or less notice);

(p) Except as set forth in Section 3.2 of the Parent Disclosure Schedule and except to the extent required under this Agreement or pursuant to applicable law, increase the compensation or fringe benefits of any of its directors, officers or employees, except for increases in salary or wages of officers and employees of Parent in the ordinary course of business in accordance with past practice, or grant any severance or termination pay not currently required to be paid under existing severance plans or enter into, or amend, any employment, consulting or severance agreement or arrangement with any present or former director, officer or other employee of Parent, or establish, adopt, enter into or amend or terminate any collective bargaining, bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, welfare, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any directors, officers or employees, except for any plan amendments to comply with Section 409A of the Code (provided that any such amendments shall not materially increase the cost of such plan to Parent);

(q) Take or fail to take any action that would prevent the Merger from qualifying as reorganization within the meaning of Section 368(a) of the Code;

(r) Pay, discharge or satisfy any claims, liabilities or obligations (absolute accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business and consistent with past practice, of liabilities reflected or reserved against in the financial statements of Parent or incurred in the ordinary course of business and consistent with past practice;

(s) Enter into any transaction with, or enter into any agreement, arrangement, or understanding with any of Parent's affiliates that would be required to be disclosed pursuant to Item 404 of SEC Regulation S-K; or

(t) Take, or offer or propose to take, or agree to take in writing or otherwise, any of the actions described in Sections 3.1(a) through 3.1(s) or any action which would result in any of the conditions set forth in Article VI not being satisfied or would materially delay the Closing.

3.3. Operational Matters. From the date of this Agreement until the Effective Time, at the request of Parent, senior management of Company shall (a) confer on a regular and frequent basis with Parent and (b) report (to the extent permitted by law or regulation or any applicable confidentiality agreement) to Parent on operational matters. Company shall file or furnish all reports, communications, announcements, publications and other documents required to be filed or furnished by it with all Governmental Entities between the date of this Agreement and the Effective Time and Company shall (to the extent any report, communication, announcement, publication or other document contains any statement relating to this Agreement or the Merger, and to the extent permitted by law or regulation or applicable confidentiality agreement) consult with Parent for a reasonable time before filing or furnishing any such report, communication, announcement, publication or other document and mutually agree upon any such statement and deliver to Parent copies of all such reports, communications, announcements, publications and other documents promptly after the same are filed or furnished. Nothing contained in this Agreement shall give Parent, directly or indirectly, the right to control or direct the operations of Company prior to the Effective Time. Prior to the Effective Time, each of Company and Parent shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over respective businesses and operations.

ARTICLE IV

ADDITIONAL AGREEMENTS

4.1. Preparation of Proxy Statement.

(a) As soon as practicable following the date of this Agreement, Parent shall, with the cooperation of Company and the PA Management Team (as defined in Article X), prepare and file with the SEC under the Exchange Act, and with all other applicable regulatory bodies, a proxy statement (the "*Proxy Statement*") in preliminary form. The Proxy Statement shall:

(i) request approval from Parent's stockholders of the Merger and this Agreement upon the terms set forth herein;

(ii) request approval for the amendment of the Parent Charter to, among other things, (A) effect the change of the name of the Parent from its current name to PharmAthene, Inc., (B) delete the preamble and SPAC-specific portions of the Parent Charter from and after the Closing and (C) provide that, for so long as at least 30% of the 8% Convertible Notes remain outstanding, the number of directors constituting the Board of Directors of Parent shall not exceed 7, the number of directors constituting each committee of the Board of Directors of Parent shall not exceed 3, and the holders of the 8% Convertible Notes shall have the right, as a separate class (and notwithstanding the existence of less than three such holders at any given time), to (x) elect 3 members to the Board of Directors of Parent and, (y) to the extent they elect to fill such committee positions, appoint 2 of the 3 members of each Committee of the Board of Directors (including the nominating and corporate governance committee and the compensation committee and committees performing similar functions); and

(iii) request approval from the Parent's stockholders for an incentive stock option plan in form and substance acceptable to the PA Management Team, Parent and Company ("*Stock Option Plan*") to provide for, among other things, the reservation of a sufficient number of shares of Parent Common Stock for issuance thereunder for all outstanding Company Options plus 3,000,000; and (v) such other approvals as the parties may determine are necessary or desirable. Parent shall also take any action required to be taken under any applicable state securities laws in connection with the issuance of Parent Common Stock in the Merger.

The Proxy Statement shall be filed in preliminary form in accordance with the Exchange Act, and each of Company and Parent shall use its commercially reasonable efforts to respond as promptly as practicable to any comments of the SEC with respect thereto. Parent shall use its reasonable best efforts to (1) prepare and file with the SEC the definitive Proxy Statement, (2) cause the Proxy Statement, including any amendment or supplement thereto to be approved by the SEC, and (3) to cause the definitive Proxy Statement to be mailed to Parent's stockholders and holders of Parent Warrants as promptly as practicable after the SEC has approved them. Parent shall notify Company promptly of the receipt of any comments from the SEC or its staff and of any request by the SEC or its staff for amendments or supplements to the Proxy Statement or for additional information and each of Parent and Company shall supply each other with copies of all correspondence between such or any of its representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to the Proxy Statement or the Merger.

(b) The parties hereto shall use all reasonable efforts to have the Proxy Statement approved by the SEC as promptly as practicable after such filing. Parent and its counsel shall obtain from Company and the PA Management Team such information required to be included in the Proxy Statement and, after consultation with Company and its counsel, respond promptly to any comments made by the SEC with respect to the Proxy Statement. Parent shall allow Company's full participation in the preparation of the Proxy Statement and any amendment or supplement thereto and shall consult with Company and its advisors concerning any comments from the SEC with respect thereto. The PA Management Team and Company's independent accountants shall assist Parent and its counsel in preparing the Proxy Statement and acknowledge that a substantial portion of the Proxy Statement shall include disclosure regarding Company, its management, operations and financial condition. Company shall furnish consolidated audited financial statements for the fiscal years ended December 31, 2006 as soon as they become available and in no event later that February 14, 2007, for inclusion in the Proxy Statement. The PA Management Team shall make itself available to Parent and its counsel in connection with the drafting of the Proxy Statement and responding in a timely manner to comments from the SEC and shall cause to be delivered opinions of counsel related to FDA and Intellectual Property Rights matters as described in the Proxy Statement with respect to Company's business as Parent may reasonably request opining on such matters as are usual and customary for underwritten public offerings. All information regarding Company, its management, operations and financial condition, including any material contracts required to be filed as part of the Proxy Statement (for purposes hereof referred to collectively as "*Company Information*") shall be true and correct in all material respects and shall not contain any misstatements of any material information or omit any material information regarding Company. Prior to the filing of the Proxy Statement with the SEC and each amendment thereto, the PA Management shall confirm in writing to Parent and its counsel that it has reviewed the Proxy Statement (and each amendment thereto) and approved the Company Information contained therein.

(c) If, prior to the Effective Time, any event occurs with respect to Company, or any change occurs with respect to other information supplied by Company for inclusion in the Proxy Statement, which is required to be described in an amendment of, or a supplement to, the Proxy Statement, Company shall promptly notify Parent of such event, and Company and Parent shall cooperate in the prompt filing with the SEC of any necessary amendment or supplement to the Proxy Statement and, as required by Law, in disseminating the information contained in such amendment or supplement to Parent's stockholders.

(d) If, prior to the Effective Time, any event occurs with respect to Parent or Merger Sub, or any change occurs with respect to other information supplied by Parent for inclusion in the Proxy Statement, which is required to be described in an amendment of, or a supplement to, the Proxy Statement, Parent shall promptly notify Company of such event, and Parent and Company shall cooperate in the prompt filing with the SEC of any necessary amendment or supplement to the Proxy Statement and, as required by Law, in disseminating the information contained in such amendment or supplement to Parent's stockholders.

(e) Parent shall, promptly after the date hereof, take all action necessary to duly call, give notice of, convene and hold a meeting of its stockholders (the "*Parent Stockholders Meeting*") as soon as practicable after the Proxy Statement is approved by the SEC. Parent shall consult with Company on the date for Parent Stockholders Meeting. Parent shall use its commercially reasonable efforts to cause the Proxy Statement to be mailed to Parent's stockholders as soon as practicable after the Proxy Statement is approved. Parent shall, through Parent's Board of Directors, recommend to its stockholders that they give the Parent Stockholder Approval, except to the extent that Parent's Board of Directors shall have withdrawn its approval or recommendation of this Agreement and the Merger, which withdrawal may be made only if deemed by Parent's Board of Directors to be necessary in order to comply with its fiduciary duties. Notwithstanding any other provision thereof, Parent shall not be restricted from complying with any of its obligations under the Exchange Act.

(f) During the term of this Agreement, Company shall not take any actions to exempt any Person other than Parent and Merger Sub from the threshold restrictions on Company Common Stock ownership or any other anti-takeover provision in Company's certificate of incorporation, or make any state takeover statute (including any Delaware state takeover statute) or similar statute inapplicable to any Alternative Transaction (as defined in Article X).

(g) Parent shall comply with all applicable federal and state securities laws in all material respects.

4.2. Access to Information. Upon reasonable notice, Company shall afford to the officers, employees, accountants, counsel, financial advisors and other representatives of Parent reasonable access during normal business hours, during the period prior to the Effective Time, to such of its properties, books, contracts, commitments, records, officers and employees as Parent may reasonably request and, during such period, Company shall furnish promptly to Parent (a) a copy of each report, schedule and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state laws, as applicable (other than documents which Company is not permitted to disclose under applicable Law), and (b) consistent with its legal obligations, all other information concerning it and its business, properties and personnel as Parent may reasonably request; *provided*, *however,* that Company may restrict the foregoing access to the extent that any Law, treaty, rule or regulation of any Governmental Entity applicable to Company requires Company to restrict access to any properties or information. Parent will hold any such information that is non-public in confidence. Any investigation by Parent shall not affect the representations and warranties of Company.

4.3. Commercially Reasonable Efforts.

(a) Subject to the terms and conditions of this Agreement, each party will use its commercially reasonable efforts to prepare and file as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings, and other documents and to obtain as promptly as practicable all consents, waivers, licenses, orders, registrations, approvals, permits, tax rulings and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger and the other transactions contemplated by this Agreement. Upon the terms and subject to the conditions hereof, each party will use its commercially reasonable efforts to take, or cause to be taken, all actions, to do, or cause to be done, all things reasonably necessary to satisfy the conditions to Closing set forth herein and to consummate the Merger and the other transactions contemplated by this Agreement. Company shall provide Parent with the opportunity to participate in any meeting or substantive telephone call with any Governmental Entity in respect of any filings, investigations or other inquiry in connection with the transactions contemplated hereby.

(b) Nothing contained in this Section 4.3 or in any other provision of this Agreement shall be construed as requiring Parent to agree to any terms or conditions as a condition to, or in connection with, obtaining any Necessary Consents or any required approval of the health care or other applicable special license requirements that would:

(i) impose any limitations on Parent's ownership or operation of all or any portion of its or Company's businesses or assets, or compel Parent or any of its Subsidiaries to dispose of or hold separate all or any portion of its or Company's, or any of their respective Subsidiaries', businesses or assets,

(ii) impose any limitations on the ability of Parent to acquire or hold or to exercise full rights of ownership of the Company Common Stock,

(iii) impose any obligations on Parent or Company in respect of or relating to Parent's or Company's facilities, operations, places of business, employment levels, products or businesses,

(iv) require Parent or Company to make any payments, or

(v) impose any other obligation, restriction, limitation, qualification or other condition on Parent or Company (other than, with respect to clauses (iii), (iv) and (v), such terms or conditions as are reasonable and relate to the ordinary course of business of Company and that are imposed by a Governmental Entity with power and authority to grant the Necessary Consents, and which individually or in the aggregate (A) could have been imposed on Company as of January 1, 2006 by such Governmental Entity in the ordinary course of regulating the business of Company and (B) do not competitively disadvantage Parent or Company) (any such term or condition in (i) through (v) being referred to herein as a "*Burdensome Term or Condition*").

4.4. No Solicitation of Transactions. Each of Parent and Company agrees that neither Parent nor Company nor any of their respective officers and directors shall, and that they shall use their respective commercially reasonable efforts to cause their respective employees, agents and representatives (including any investment banker, attorney or accountant retained by it) not to, directly or indirectly, except as set forth in Section 3.1 of the Company Disclosure Schedule, (A) initiate, solicit, encourage or knowingly facilitate any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving it or any purchase, transfer or sale of the assets of it, or any purchase or sale of, or tender or exchange offer for, its voting securities (any such proposal, offer or transaction (other than a proposal or offer made by one party to this Agreement to the other party to this Agreement or an affiliate thereof) being hereinafter referred to as an "*Acquisition Proposal*"), (B) have any discussions with or provide any confidential information or data to any person relating to an Acquisition Proposal, or engage in any negotiations concerning an Acquisition Proposal, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal, (C) approve or recommend, or propose publicly to approve or recommend, any Acquisition Proposal or (D) approve or recommend, or propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other similar agreement related to any Acquisition Proposal or propose or agree to do any of the foregoing.

4.5. Employee Benefits Matters. From the date hereof until the Effective Time, Company shall provide compensation and benefits to the current and former employees of Company (other than those current and former employees whose terms and conditions of employment are subject to a collective bargaining agreement) upon the same terms as have been provided to such employees prior to the date of this Agreement, subject to termination of such compensation or benefits in accordance with their terms and any adjustment required by applicable law, the terms and conditions of any contract or agreement or the provisions of any Company Benefit Plan.

4.6. Notification of Certain Matters. Company shall use commercially reasonable efforts to give prompt notice to Parent, and Parent shall use commercially reasonable efforts to give prompt notice to Company, to the extent that either acquires actual knowledge of (a) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would be reasonably likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate and (b) any failure of Parent, Merger Sub or Company, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; *provided, however,* that the delivery of any notice pursuant to this Section 4.6 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

4.7. Public Announcements. Parent and Company shall develop a joint communications plan and each party shall (a) ensure that all press releases and other public statements and communications (including any communications that would require a filing under Rule 425, Rule 165 and Rule 166 of the Securities Act or Rule 14a-12 of the Exchange Act) with respect to this Agreement and the transactions contemplated hereby shall be consistent with such joint communications plan and (b) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, Company shall consult with Parent for a reasonable time before issuing any press release or otherwise making any public statement or communication (including any communication that would require a filing under Rule 425, Rule 165 and Rule 166 of the Securities Act or Rule 14a-12 of the Exchange Act), and Parent and Company shall mutually agree upon any such press release of Company or any such public statement or communication by Company, with respect to this Agreement or the transactions contemplated hereby. In addition to the foregoing, except to the extent required by applicable Law, neither Parent nor Company shall issue any press release or otherwise make any public statement or disclosure concerning the other party or the other party's business, financial condition or results of operations without the consent of the other party.

4.8. Affiliates. Promptly after execution and delivery of this Agreement, Company shall deliver to Parent a letter identifying all persons who, to the best of Company's Knowledge, may be deemed as of the date hereof "affiliates" of Company for purposes of Rule 145 under the Securities Act, and such list shall be updated as necessary to reflect changes from the date thereof until the Effective Time.

4.9. [reserved]

4.10. Takeover Statutes. Company and its Board of Directors shall, if any takeover statute or similar statute or regulation of any state becomes or may become applicable to this Agreement, the Merger or any other transactions contemplated by this Agreement, grant such approvals and take such actions as are necessary to ensure that the Merger and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise to minimize the effect of such statute or regulation on this Agreement, the Merger and the other transactions contemplated by this Agreement.

4.11. Transfer Taxes. Each of Parent, Merger Sub and Company shall pay any sales, use, ad valorem, property, transfer (including real property transfer) and similar Taxes imposed on such Person as a result of or in connection with the Merger and the other transactions contemplated hereby.

4.12. AMEX Listing; Symbol. Parent shall cause the shares of Stock Consideration and the Note Conversion Shares to be issued in the Merger to be approved for listing on the AMEX, subject to official notice of issuance, prior to the Effective Time. After the Effective Time, Parent shall cause the symbol under which the Parent Common Stock and Parent Warrants are traded on the AMEX to change to a symbol that, if available, is reasonably representative of the corporate name or business of the Surviving Corporation.

4.13. Trust Fund Closing Confirmation.

(a) Promptly after the date hereof, Parent shall give to the Trustee the notice attached as Exhibit A to the Trust Agreement.

(b) Not later than 48 hours prior to the Effective Time, Parent shall (i) give the Trustee advance notice of the Effective Time, and (ii) cause the Trustee to provide a written confirmation to Parent confirming the dollar amount of the Trust Fund balance held by the Trustee in the Trust Account that will be released to Parent upon consummation of the Merger.

4.14. Directors and Officers of Parent After the Merger. Prior to the Effective Time, Parent shall take all necessary action so that, effective at the Closing, the Board of Directors of Parent shall be reconstituted and pursuant to the Parent Charter and bylaws, shall be fixed at a total of seven (7) persons, and be comprised as follows: (A) the holders of the 8% Convertible Notes shall designate three (3) persons (the *"Noteholder Designees"*), (B) Company shall designate one (1) person who shall be the current Chief Executive Officer of Company; (C) Parent shall designate two (2) persons; and (D) Company and Parent shall designate one (1) person mutually acceptable to both of them. At least fifteen (15) days prior to the filing of the Proxy Statement, the parties shall notify each other of the names and backgrounds of the persons nominated by them to serve on the Board of Directors of Parent. All such directors, once appointed as of the Effective Time, shall continue to serve in accordance with the Parent Charter and bylaws until their successors are duly elected and qualified; provided, however, that as to the Noteholder Designees, such persons shall continue to serve on the Board of Directors for so long as at least 30% of the principal amount of the 8% Convertible Notes issued as a part of the Merger Consideration remain outstanding (and notwithstanding the existence of less than three such holders at any given time) and provided further, that two (2) of such designees shall be appointed as two (2) of the three (3) members of each committee of the Board of Directors of Parent including the nominating and corporate governance committee and compensation committee of Parent assuming such composition is in compliance with applicable regulations of the AMEX. In the event that any nominee of the holders of the 8% Convertible Notes, Company or Parent, as the case may be, is unable or determines not to complete his initial term, then a replacement nominee of the holders of the 8% Convertible Notes, Company or Parent, as the case may be, shall fill such vacancy, subject to approval of the Board of Directors nominating and governance committee, which approval shall not be unreasonably withheld or delayed. Notwithstanding anything to the contrary contained herein, as of the Closing Date, the Board shall include such number of directors deemed "independent" within the rules of the AMEX as such rules may require, but in no event shall the Board include less than two (2) such "independent" directors.

ARTICLE V

Post Closing Covenants

5.1. General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the parties will take such further action (including the execution and delivery of such further instruments and documents) as any other party reasonably may request, all at the sole cost and expense of the requesting party (unless the requesting party is entitled to indemnification therefor under section 5.6 below). Company acknowledges and agrees that from and after the Closing, Parent will be entitled to possession of all documents, books, records (including tax records), agreements, and financial data of any sort relating to Company; provided, however, that after Closing, Parent shall provide to Company stockholders reasonable access to and the right to copy such documents, books, records (including tax records), agreements, and financia1 data where Company stockholders have a legitimate purpose, including without limitation, in the event of an internal revenue service audit.

5.2. Litigation Support. In the event and for so long as any party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (a) any transaction contemplated under this agreement or (b) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving Company, each of the other parties will cooperate with him or it and his or its counsel in the contest or defense, make available their personnel, and provide such testimony and access to their books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending party (unless the contesting or defending party is entitled to indemnification therefor under Article VIII below).

5.3. Transition. Company will exercise reasonable commercial efforts to assure that none of Company stockholders will take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of Company from maintaining the same business relationships with Company after the Closing as it maintained with Company prior to the Closing. Company will refer all customer inquiries relating to the businesses of Company to Parent or the Surviving Corporation from and after the Closing.

5.4. Tax-Free Reorganization Treatment. The parties hereto shall use their commercially reasonable efforts to cause the Merger to be treated as a reorganization within the meaning of Section 368(a) of the Code and shall not knowingly take or fail to take any action which action or failure to act would jeopardize the qualification of the Merger as a reorganization within the meaning of Section 368(a) of the Code. Unless required by law each of Parent, Merger Sub and Company shall not file any Tax Return or take any position inconsistent with the treatment of the Merger as a reorganization described in Section 368(a) of the Code.

5.5. Headquarters of Surviving Corporation. Following the Effective Time, the headquarters and the principal executive offices of the Surviving Corporation shall be in Annapolis, Maryland.

5.6. Indemnification of Directors and Officers of Company. From and after the Effective Time, Parent will cause the Surviving Corporation to fulfill and honor in all respects the obligations of Company pursuant to any indemnification agreements between Company and its directors and officers as of the Effective Time (the "*Indemnified Directors and Officers*") and any indemnification or expense advancement provisions under Company's certificate of incorporation or bylaws as in effect on the date hereof. The certificate of incorporation and bylaws of the Surviving Corporation will contain provisions with respect to exculpation and indemnification and expense advancement that are at least as favorable to the Indemnified Directors and Officers as those contained in the certificate of incorporation and bylaws of Company as in effect on the date hereof, which provisions will not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder of individuals who, immediately prior to the Effective Time, were directors, officers, employees or agents of Company, unless such modification is required by Law.

5.7. Continuity of Business Enterprise. Parent will continue at least one significant historic business line of Company, or use at least a significant portion of Company's historic business assets in a business, in each case within the meaning of Reg. §1.368-1(d), except that Parent may transfer Company's historic business assets (i) to a corporation that is a member of Parent's "qualified group," within the meaning of Reg. §1.368-1(d)(4)(ii), or (ii) to a partnership if (A) one or more members of Parent's "qualified group" have active and substantial management functions as a partner with respect to Company's historic business or (B) members of Parent's "qualified group" in the aggregate own an interest in the partnership representing a significant interest in Company's historic business, in each case within the meaning of Reg. §1.368-1(d)(r)(ii).

5.8. Substantially All Requirement. Following the Merger, to the Knowledge of Parent, Surviving Corporation will hold at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets that were held by Company immediately prior to the Effective Time, and at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets that were held by Merger Sub immediately prior to the Effective Time. Insofar as this representation is dependent upon actions of Company prior to the Merger, Parent and Merger Sub have assumed that Company will take no action prior to the Merger that will cause Company not to hold at least 90% of the fair market value of its net assets and at least 70% of the fair market value of its gross assets immediately prior to the Effective Time. For purposes of this Section 5.8, cash or other property paid by Company or Merger Sub to stockholders, or used by Company or Merger Sub to pay reorganization expenses, or distributed by Company or Merger Sub with respect to or in redemption of its outstanding stock, other than regular dividends paid in the ordinary course and other than cash or other property transferred by Parent to Merger Sub in pursuance of the plan of Merger immediately preceding, or in contemplation of, the Merger are included as assets held by Company and Merger Sub immediately prior to the Effective Time. Additionally, Parent has not participated in any plan of Company to effect (i) any distribution with respect to any Company stock (other than regular dividend distributions made in the ordinary course), or (ii) any redemption or acquisition of any Company stock (other than in the Merger).

5.9. Composition of the Board of Directors of Parent. Notwithstanding anything to the contrary contained herein, for so long as at least 30% of the principal amount of 8% Convertible Notes issued as part of the Merger Consideration remains outstanding, the number of directors constituting the Board of Directors of Parent shall be fixed at seven (7) and the holders of the 8% Convertible Notes shall have the right, as a separate class (and notwithstanding the existence of less than three (3) such holders at any given time), to elect three (3) members to the Board of Directors of Parent and, to the extent that the holders elect to fill committee positions, they shall have the right, subject to applicable Law and the regulations of the AMEX, to appoint two (2) of the three (3) members of each committee of the Board of Directors including the nominating and corporate governance committee and the compensation committee of Parent. The Parent Charter shall reflect such right of the holders of the 8% Convertible Notes. Parent and its Board of Directors shall include the names of the three (3) nominees of the holders of the 8% Convertible Notes in every proxy statement delivered to stockholders of Parent for any special or annual meeting of Parent's stockholders at which directors are to be elected during the period commencing on the Closing Date and ending upon the date that less than 30% of the principal amount of the 8% Convertible Notes issued as Merger Consideration remains outstanding, at which time the rights of such holders under this Section 5.9 shall terminate.

ARTICLE VI

CONDITIONS PRECEDENT

6.1. Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of Parent, Merger Sub and Company to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *No Injunctions or Restraints, Illegality.* (i) No Governmental Entity or federal or state court of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, judgment, injunction or other order (whether temporary, preliminary or permanent), in any case which is in effect and which prevents or prohibits consummation of the Merger or any of the other transactions contemplated in this Agreement and (ii) no Governmental Entity shall have instituted any action or proceeding (which remains pending at what would otherwise be the Closing Date) before any United States court or other Governmental Entity of competent jurisdiction seeking to enjoin, restrain or otherwise prohibit consummation of the transactions contemplated by this Agreement.

(b) *Parent Stockholder Approval*. The Parent shall have obtained from its stockholders in accordance with the DGCL, (i) approval of this Agreement, the Merger and the transactions contemplated hereby; provided, however, that stockholders of Parent holding not more than 19.99% of the IPO Shares shall have voted against the Merger and exercised their conversion rights under the Parent Charter to convert their shares of Common Stock into a cash payment from the Trust Fund (iii) approval of the amendment of the Parent Charter as set forth in Section 4.1(ii) and (iii) approval of the Stock Option Plan (together, the "Parent Stockholder Approval").

(c) *Company Stockholder Approval*. This Agreement and the transactions contemplated hereby shall have been adopted by the Requisite Majority of the Company Capital Stock. At least the Requisite Majority of the holders of the Company Capital Stock and all of the holders of then outstanding PharmAthene Notes shall have executed and delivered the Allocation Agreement and the Note Exchange Agreement, as applicable, and such agreements shall be in full force and effect.

6.2. Additional Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are subject to the satisfaction or waiver by Parent, on or prior to the Closing Date, of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Company shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent that such representations and warranties speak as of another date), other than such failures to be true and correct that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Company. Parent shall have received a certificate of the chief executive officer and the chief financial officer of Company to such effect.

(b) *Performance of Obligations of Company.* Company shall have performed or complied in all respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date. Parent shall have received a certificate of the chief executive officer and the chief financial officer of Company to such effect.

(c) *Required Governmental Consents.* The Necessary Consents shall have been obtained and shall be in full force and effect, and the Necessary Consents shall not, individually or in the aggregate, impose any Burdensome Term or Condition.

(d) *No Proceedings.* There shall not be pending or threatened any suit, litigation, action or other proceeding relating to the transactions contemplated by this Agreement except as disclosed to Parent.

(e) *No Material Adverse Change*. At any time on or after the date of this Agreement there shall not have occurred any change, circumstance or event that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect on Company.

(f) *Termination of Side Agreements related to Company Preferred Stock and Subsidiary Capital Stock*. Company shall have delivered to Parent executed termination agreements in form and substance reasonably satisfactory to Parent from the holders of the Company Preferred Stock whereby the holders of such securities terminate all rights under any agreements entered into by Company in connection with the issuance and sale of the Company Series A Preferred Stock, Company Series B Preferred Stock and Company Series C Preferred Stock, including, without limitation, all registration rights agreements, management or stockholder agreements and tag along agreements. Company shall have delivered to Parent executed termination agreements in form and substance reasonably satisfactory to Parent from the signatories to the Amended and Restated Put and Support Agreement, dated July 24, 2006, by and among Company, Canadian Medical Discoveries Fund Inc. and Subsidiary and the Amended and Restated Shareholders' Agreement, dated July 24, 2006, by and among Company, Canadian Medical Discoveries Fund Inc. and Subsidiary, in each case relating to the Subsidiary Capital Stock.

(g) *Deliverables*.

(i) *Company Officer's Certificate*. Parent shall have been provided with a certificate executed on behalf of Company by an authorized officer to the effect set forth in Sections 6.2(a) and 6.2(b).

(ii) C*ompany Secretary Certificate*. Parent shall have received a duly executed certificate from the Secretary of Company with respect to: (A) the certificate of incorporation, as certified by the Secretary of State of Delaware as of a recent date, and bylaws of Company, (B) resolutions of the board of directors of Company with respect to the authorizations of this Agreement and the other agreements contemplated hereby, (C) a certificate of existence and good standing as of a recent date from the Secretary of State of the State of Delaware and (iv) the incumbency of the executing officers of Company.

(iii) *Legal Opinion*. Parent shall have been furnished with the favorable opinion of McCarter & English, LLP, dated as of the Closing Date, counsel to Company, in form and substance reasonably acceptable to Parent.

(iv) *Company Stockholders Lock-Up Agreement.* Each of the Company stockholders and holders of PharmAthene Notes and the holders of Company Options and Company Warrants to purchase not less than 100,000 shares of Company Common Stock and all officers and directors of the Company shall have executed a Lockup Agreement in substantially the form attached hereto as Exhibit C (the "*Lockup Agreement*"), that such person shall not sell, pledge, transfer, assign or engage in any hedging transaction with respect to Parent Common Stock issued to such stockholders as part of the Merger Consideration except in accordance with the following schedule: 50% of the Stock Consideration shall be released from the Lock-Up Agreement commencing six (6) months following the Effective Time, and all Stock Consideration shall be released from the Lock-Up Agreement twelve (12) months following the Effective Time.

(v) *Employment Agreements.* (a) David Wright shall have duly executed and delivered to Parent an employment agreement in form and substance mutually acceptable to such parties and (b) all other Company employment agreements currently in effect shall have been assumed by Parent or otherwise continued by Company.

(vi) *Escrow Agreement.* The Stockholders' Representative and Parent Representative (as defined in Article VIII) shall have duly executed and delivered to Parent the Escrow Agreement.

(vii) *Resignations*. All current officers and directors of Company shall have executed and delivered to Parent their resignations unless it is contemplated pursuant to the terms of this Agreement that such officer or director shall continued in office following the Closing.

(viii) *FIRPTA*. Company shall have delivered to Parent a properly executed FIRPTA Notification Letter, in form and substance reasonably acceptable to Parent, which states that shares of Company Capital Stock do not constitute "United States real property interests" under Section 897(c) of the Code, for purposes of satisfying Parent's obligations under Treasury Regulation Section 1.1445-2(c)(3). In addition, simultaneously with delivery of such Notification Letter, Company shall have provided to Parent, as agent for Company, a form of notice to the Internal Revenue Service in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2) and in form and substance reasonably acceptable to Parent, along with written authorization for Parent to deliver such notice form to the Internal Revenue Service on behalf of Company upon the Closing.

(ix) *Third Party Consents*. Company shall have obtained all necessary consents from third parties, including, without limitation, the Necessary Consents.

(x) *Instruments and Possessions*. In order to effect the Merger, Company shall have executed and/or delivered to Parent:

(A) all Books and Records of Company;

(B) such keys, lock and safe combinations and other similar items as Parent shall require, to obtain, full occupation, possession and control of Company's facilities;

(C) such changes relating to the bank accounts and safe deposit boxes of Company as are being transferred to the Surviving Corporation;

(D) such other certificates, documents, instruments and agreements as Parent shall deem necessary in its reasonable discretion in order to effectuate the Merger and the other transactions contemplated herein, in form and substance reasonably satisfactory to Parent.

6.3. Additional Conditions to Obligations of Company. The obligations of Company to effect the Merger are subject to the satisfaction or waiver by Company, on or prior to the Closing Date, of the following additional conditions:

(a) *Representations and Warranties.* The representations and warranties of Parent and Merger Sub shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent that such representations and warranties speak as of another date), other than such failures to be true and correct that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent or Merger Sub. Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent to such effect.

(b) *Performance of Obligations of Parent and Merger Sub.* Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required to be performed by them under this Agreement at or prior to the Closing Date. Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent to such effect.

(c) *Required Governmental Consents.* The Necessary Consents shall have been obtained and shall be in full force and effect, and the Necessary Consents shall not, individually or in the aggregate, impose any Burdensome Term or Condition.

(d) *No Proceedings.* There shall not be pending or threatened any suit, litigation, action or other proceeding relating to the transactions contemplated by this Agreement except as disclosed to Company.

(e) *No Material Adverse Change*. At any time on or after the date of this Agreement there shall not have occurred any change, circumstance or event that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect on Parent.

(f) *Third Party Consents*. Parent shall have obtained all necessary consents from third parties including, without limitation, the Necessary Consents.

(g) *Parent Charter Amendment; Board of Directors.* The Parent Charter shall have been amended to provide for the structure and election of the Board of Directors as provided herein (including as set forth in Section 4.1(ii)) and all necessary actions on the part of Parent shall have been taken to elect the new slate of directors to the Board of Directors of Parent as of the Effective Time.

(h) *AMEX Listing.* Parent shall have caused the shares of Stock Consideration to be issued in the Merger to be approved for listing on the AMEX, subject to official notice of issuance, prior to the Effective Time.

(i) *Tax Consequences.* For U.S. federal income tax purposes, the Merger shall be treated as a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Code.

(j) *Deliverables*.

(i) *Parent Officer's Certificate*. At the Closing, Company shall have received a duly executed certificate on behalf of Parent by an authorized officer to the effect set forth in Sections 6.3(a) and 6.3(b).

(ii) *Parent Secretary Certificate*. At the Closing, Company shall have received a duly executed certificate from the Secretary of Parent and Merger Sub with respect to: (a) the certificate of incorporation, as certified by the Secretary of State of Delaware as of a recent date, and bylaws of such entities, (b) resolutions of the board of directors of such entities with respect to the authorizations of this Agreement and the other agreements contemplated hereby, (c) a certificate of existence and good standing of such entities as of a recent date from the Secretary of State of Delaware and (d) the incumbency of the executing officers of such entities.

(iii) *Employment Agreements*. Parent shall have (a) duly executed and delivered to David Wright an employment agreement in form and substance mutually acceptable to such parties and (b) all other Company employment agreements currently in effect shall have been assumed by Parent or otherwise continued by Company.

(iv) *Note Exchange Agreement.* Parent shall have entered into a Note Exchange Agreement in substantially the form of Exhibit E (the "*Note Exchange Agreement"*) with each of the holders of PharmAthene Notes or with the Stockholders' Representative on their behalf.

(v) *8% Convertible Notes*. The 8% Convertible Notes, in substantially the form attached hereto as Exhibit A, shall have been duly executed and delivered to the holders of the PharmAthene Notes pursuant to such Note Exchange Agreement.

(vi) *Legal Opinion*. Company and its stockholders shall have been furnished with the favorable opinion of Ellenoff Grossman & Schole LLP, counsel to the Parent, dated as of the Closing Date, in form and substance reasonably acceptable to Company.

(vii) *Registration Rights Agreement with respect to Parent Common Stock*. Parent shall have entered into a Registration Rights Agreement in substantially the form of Exhibit D (the "*Registration Rights Agreement"*) with each of Company's stockholders receiving Parent Common Stock and the holders of the 8% Convertible Notes or the Stockholders' Representative on their behalf.

(viii) *Instruments and Possessions*. In order to effect the Merger, Parent and Merger Sub shall have executed and/or delivered to Company such other certificates, documents, instruments and agreements as Parent shall deem necessary in its reasonable discretion in order to effectuate the Merger and the other transactions contemplated herein, in form and substance reasonably satisfactory to Company.

ARTICLE VII

TERMINATION AND AMENDMENT

7.1. Termination. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time prior to the Effective Time:

(a) By mutual written consent of Parent, Merger Sub and Company;

(b) By Parent or Company, if (i) the Merger shall not have been consummated on or before August 3, 2007; *provided, however,* that the right to terminate this Agreement pursuant to this Section 7.1(b)(i) shall not be available to any party if such party's action or failure to act has been the principal cause of or resulted in the failure of the Merger to be consummated on or before such date; if (ii) any permanent injunction or other order of a court or other competent authority preventing the consummation of the Merger shall have become final and nonappealable; or, (iii) during any 15-day trading period following the execution of this Agreement and before the Effective Time, the average trading price of the publicly-traded warrants of the Parent is below $0.20 per warrant.

(c) By Company, if (i) prior to the Closing Date there shall have been a material breach of any representation, warranty, covenant or agreement on the part of Parent or Merger Sub contained in this Agreement or any representation or warranty of Parent or Merger Sub shall have become untrue after the date of this Agreement, which breach or untrue representation or warranty (A) would, individually or in the aggregate with all other such breaches and untrue representations and warranties, give rise to the failure of a condition and (B) is incapable of being cured prior to the Closing Date by Parent or is not cured within thirty (30) days of notice of such breach, (ii) any of the conditions set forth in Sections 6.1 (other than 6.1(c) which shall not be grounds for termination by Company) or 6.3 shall have become incapable of fulfillment; (iii) Parent has not filed its preliminary Proxy Statement with the SEC by February 14, 2007 through no fault of Company or such Proxy Statement has not been approved by the SEC by July 10, 2007; (iv) Parent has not held its Parent Stockholders Meeting to approve the Merger within thirty-five (35) days of approval of the Proxy Statement by the SEC; (v) Parent's Board of Directors has withdrawn or changed its recommendation to its stockholders regarding the Merger; or (vi) more than 19.99% of the holders of the IPO Shares entitled to vote on the Merger elect to convert their IPO Shares into cash from the Trust Fund.

(d) By Parent, if (i) prior to the Closing Date there shall have been a material breach of any representation, warranty, covenant or agreement on the part of Company contained in this Agreement or any representation or warranty of Company shall have become untrue after the date of this Agreement, which breach or untrue representation or warranty (A) would, individually or in the aggregate with all other such breaches and untrue representations and warranties, give rise to the failure of a condition and (B) is incapable of being cured prior to the Closing Date by Company or is not cured within thirty (30) days of notice of such breach; (ii) any of the conditions set forth in Sections 6.1 (other than 6.1(c) which shall not be grounds for termination by Parent) or 6.2 shall have become incapable of fulfillment; (iii) the Necessary Consents, individually or in the aggregate contain any Burdensome Terms or Conditions which have a Material Adverse Effect on Company or Parent.

7.2. Effect of Termination.

(a) In the event of the termination of this Agreement pursuant to Section 7.1, the obligations of the parties under this Agreement shall terminate and there shall be no liability on the part of any party hereto, except for the obligations in the confidentiality provisions hereof, and all of the provisions of this Section 7.2, Section 7.3, Section 7.4 and Section 9.11; *provided, however,* that no party hereto shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement.

(b) In the event that this Agreement is terminated by Parent pursuant to Section 7.1(d)(i) and 7.1(d)(ii)(and, in the case of the failure to fulfill conditions, such failure is within Company's control which shall be deemed to include a failure of the Company, its stockholders or holders of PharmAthene Notes to agree upon the terms of any re-allocation of the Merger Consideration which may be made necessary as a result of a Company Subsequent Issuance or an issuance in connection with any financing transaction with General Electric Capital Corp.), then Company shall be obligated to pay to Parent, within five (5) business days of such termination, the sum of $250,000 (the *"Termination Fee")* in cash.

(c) In the event that this Agreement is terminated by Company pursuant to Section 7.1(c)(i) through (v)(and, in the case of the failure to fulfill conditions, such failure is within Parent's control), then Parent shall be obligated to pay to Company, within five (5) business days of such termination, the Termination Fee, in cash, or such lesser amount (in the event that Parent does not have $250,000 in available funds outside of the Trust Fund) as shall equal all remaining available funds of Parent which are not a part of the Trust Fund.

7.3. Trust Fund Waiver. Reference is made to the final prospectus of Parent, dated July 28, 2005 (the "*Prospectus*"), Company understands that, except for a portion of the interest earned on the amounts held in the Trust Fund, Parent may disburse monies from the Trust Fund only: (a) to its public stockholders in the event of the redemption of their shares or the dissolution and liquidation of Parent, (b) to Parent and Maxim Group LLC (with respect to Maxim Group LLC's deferred underwriting compensation only) after Parent consummates a business combination (as described in the Prospectus) or (c) as consideration to the sellers of a target business with which Parent completes a business combination.

Company agrees that, notwithstanding any other provision contained in this Agreement (including the termination provisions of this Article VII), Company does not now have, and shall not at any time prior to the Closing have, any claim to, or make any claim against, the Trust Fund, regardless of whether such claim arises as a result of, in connection with or relating in any way to, the business relationship between Company, on the one hand, and Parent, on the other hand, this Agreement, or any other agreement or any other matter, and regardless of whether such claim arises based on contract, tort, equity or any other theory of legal liability (any and all such claims are collectively referred to in this Section 7.3 as the "*Claims*"). Notwithstanding any other provision contained in this Agreement, Company hereby irrevocably waives any Claim they may have, now or in the future (in each case, however, prior to the consummation of a business combination), and will not seek recourse against, the Trust Fund for any reason whatsoever in respect thereof. In the event that Company commences any action or proceeding based upon, in connection with, relating to or arising out of any matter relating to Parent, which proceeding seeks, in whole or in part, relief against the Trust Fund or the public stockholders of Parent, whether in the form of money damages or injunctive relief, Parent shall be entitled to recover from Company the associated legal fees and costs in connection with any such action, in the event Parent prevails in such action or proceeding.

7.4. Fees and Expenses. Each party shall bear its own expenses in connection with this Agreement and the transactions contemplated hereby, including any expenses incurred with regard to the Engagement Letter in the event that this Agreement is terminated; in the event that the Merger is consummated, all liabilities of Company shall continue as liabilities of Company as the Surviving Corporation and as a direct, wholly-owned subsidiary of Parent.

ARTICLE VIII

REMEDIES FOR BREACH OF AGREEMENT

8.1. Survival of Representations and Warranties. All of the representations and warranties of the parties contained in this Agreement shall survive the Closing hereunder (unless the non-breaching party had received from the breaching party written notice of any misrepresentation or breach of warranty prior to the time of Closing and expressly waived in writing such breach or misrepresentation) and continue in full force and effect until a period of twelve (12) months from the Closing Date ("*Survival Period*").

8.2. Indemnification Provisions for Benefit of Parent. In the event that Company violates, misrepresents or breaches (or in the event any third party alleges facts that are ultimately proven or conceded to represent a Company violation, misrepresentation or breach) any of its representations, warranties, and covenants contained herein including, without limitation, the covenants and agreements of Company and PA Management Team to provide Company Information contained in Section 4.1(b) hereof and, if there is an applicable Survival Period pursuant to Section 8.1 above, provided that the Parent Representative makes a written claim for indemnification against Company pursuant to Section 8.6 below within the Survival Period, then the Indemnifying Stockholders (as defined in Article X) agree to indemnify Parent from and against the entirety of any Adverse Consequences (as defined in Article X) that Parent may suffer through and after the date of the claim for indemnification (including any Adverse Consequences Parent may suffer after the end of any applicable Survival Period) resulting from, arising out of, relating to, in the nature of, or caused by the violation, misrepresentation or breach. Any liability incurred by the Indemnifying Stockholders pursuant to the terms of this Article VIII shall be limited to, and paid by, the Indemnifying Stockholders to Parent by return for cancellation of the Escrow Shares in accordance with Section 8.6 hereof which shall represent the sole and exclusive source for payment of any indemnification obligations of the Indemnifying Stockholders. All determinations relating to the submission of claims for the benefit of Parent hereunder shall be determined, in good faith, solely by the nominees of Parent to the Board of Directors. Notwithstanding Company's disclosure in Item 2 of Section 2.3(h)(i) of the Company Disclosure Schedule (the "*Section 2.3(h) disclosure*"), Parent shall have the right to indemnification under this Article VIII, subject to all of the terms and conditions of this Article VIII (including, without limitation, meeting the indemnification threshold set forth in Section 8.7 and the limitations set forth in Section 8.5), with respect to any Adverse Consequences suffered by Parent as a result of any claims relating to such Section 2.3(h) disclosure which claims are not resolved prior to Closing. For the avoidance of doubt, the parties expressly acknowledge and agree that the resolution of any claims relating to the Section 2.3(h) disclosure occurring prior to Closing shall be within the sole discretion of Company and shall in no way effect the Merger Consideration or be applicable towards the indemnification threshold or otherwise be subject to indemnification.

8.3. Matters Involving Third Parties.

(a) If any third party shall notify any party (the "*Indemnified Party*") with respect to any matter (a "*Third Party Claim*") which may give rise to a claim for indemnification against any other party (the "*Indemnifying Party*") under this Article VIII, then the Indemnified Party shall promptly (and in any event within ten (10) business days after receiving notice of the Third Party Claim) notify each Indemnifying Party and the Escrow Agent thereof in writing (an "*Indemnification Notice*"); provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(b) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (i) the Indemnifying Party notifies the Indemnified Party in writing within thirty (30) business days (or earlier in the event the underlying Third Party claim requires action) after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (iv) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedent or practice materially adverse to the continuing business interests of the Indemnified Party, and (v) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(c) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 8.3(b) above, (i) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably) and (iii) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably).

(d) In the event that any of the conditions in Section 8.3(b) above fail to be complied with, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (ii) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (iii) the Indemnifying Parties will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Article VIII.

(e) Notwithstanding anything to the contrary contained in this Article VIII, Parent, Company and Merger Sub shall not settle and pay any Third Party Claim unless and until Parent shall have obtained the prior written consent of the Stockholders' Representative to such settlement which consent the Stockholders' Representative shall not unreasonably withhold or delay.

8.4. Determination of Adverse Consequences. All claims for indemnification payments under this Article VIII shall be made in good faith and although a claim may be made hereunder, no payments shall be made for the benefit of the Indemnified Party until the Indemnified Party has incurred actual out-of pocket expenses. In the event that Parent has made a claim for indemnification prior to the termination of any applicable Survival Period, no Escrow Shares held in escrow pursuant to this Article VIII and the Escrow Agreement shall be released from the escrow until such time as the claim has been resolved unless the Survival Period shall have expired after the making of such claim but before such claim is fully resolved, in which case the Escrow Shares in excess of the Fair Market Value of the amount of Adverse Consequence shall be released from Escrow.

8.5. Escrow of Shares by Indemnifying Stockholders. As the sole and exclusive source for the payment of the indemnification obligations of the Indemnifying Stockholders under this Article VIII, Company and the Indemnifying Stockholders hereby authorize Parent to withhold, from the delivery of the Stock Consideration otherwise deliverable to the Indemnifying Stockholders as part of the Merger Consideration, for delivery into escrow, pursuant to the Escrow Agreement, 1,375,000 shares of Parent Common Stock which shall be allocated among the Indemnifying Stockholders in accordance with the relative proportions established by the Allocation Agreement as provided to Parent in a certificate executed and delivered by Company at Closing (the "*Company Closing Certificate*").

(a) *Escrow Shares*. The Escrow Shares shall be withheld from delivery to the Indemnifying Stockholders and segregated from shares issuable upon the exercise of Company Options and Company Warrants at Closing and placed in escrow pursuant to the terms of the Escrow Agreement. The Escrow Shares shall be registered in the name of each Indemnifying Stockholder in the amounts set forth on the Company Closing Certificate, and shall be held by Continental Stock Transfer & Trust Company (the "*Escrow Agent*"), and shall constitute the escrow fund (the "*Escrow Fund*") governed by the terms of the Escrow Agreement. In the event that Parent issues any additional shares of Parent Common Stock to the Indemnifying Stockholders for any reason, such additional shares shall be issued in the name of such Indemnifying Stockholders as applicable and shall not be subject to escrow. Once released from the Escrow Fund, shares of Parent Common Stock shall cease to be Escrow Shares.

(b) *Payment of Dividends; Voting.* Any cash dividends, dividends payable in securities, or other distributions of any kind made in respect of the Escrow Shares will be delivered promptly to the Indemnifying Stockholders. The Indemnifying Stockholders (other than the holders of Company Options and Company Warrants) shall be entitled to vote the Escrow Shares on any matters to come before the stockholders of Parent, with each Indemnifying Stockholder being entitled to direct the voting of its or his Escrow Shares listed on the Company Closing Certificate.

(c) *Distribution of Escrow Shares.* At the times provided for in Section 8.5(e), the Escrow Shares shall be released to the Indemnifying Stockholders (and to Parent on behalf of holders of Company Options and Company Warrants) in accordance with the Company Closing Certificate unless the Stockholders' Representative shall have instructed the Escrow Agent otherwise in writing, in which case the Escrow Agent and the Parent shall be entitled to rely upon such instructions. Parent will take such action as may be necessary to cause such certificates to be issued in the names of the appropriate persons. Certificates representing Escrow Shares so issued that are subject to resale restrictions under applicable securities laws will bear a legend to that effect. No fractional shares shall be released and delivered from the Escrow Fund to the Indemnifying Stockholders and all fractional shares shall be rounded to the nearest whole share.

(d) *Assignability*. No Escrow Shares or any beneficial interest therein may be pledged, sold, assigned or transferred, including by operation of law, by any Indemnifying Stockholders or be taken or reached by any legal or equitable process in satisfaction of any debt or other liability of any such stockholder, prior to the delivery to such Indemnifying Stockholders of its or his pro rata portion of the Escrow Fund by the Escrow Agent as provided herein.

(e) *Release from Escrow Fund*. Within five (5) business days following expiration of the Survival Period (the "*Release Date"*), the Escrow Shares will be released from the Escrow Fund to the Indemnifying Stockholders ***less*** the number of Escrow Shares, if any, with a Fair Market Value equal to the amount of Adverse Consequences set forth in any Indemnification Notice from Parent with respect to any pending but unresolved claim for indemnification. Prior to the Release Date, the Parent Representative and the Stockholder Representative shall issue to the Escrow Agent a certificate executed by each of them instructing the Escrow Agent to release such number of Escrow Shares determined in accordance with this Section 8.5(e). Any Escrow Shares retained in the Escrow Fund as a result of the immediately preceding sentence shall be released to the Indemnifying Stockholders or Parent, as appropriate, promptly upon resolution of the related claim for indemnification in accordance with the provisions of this Article VIII. For purposes of this Article VIII, the "*Fair Market Value*" shall be the average reported last sales price for the ten (10) trading days ending on the last day prior to the date that the claim for indemnification is publicly disclosed (or if there is no public disclosure, the date on which the Indemnification Notice is received) and the ten (10) trading days after such date; provided, however, the Stockholders' Representative and the Parent Representative acting together shall have the right to assign a different value to the Escrow Shares in order to settle or pay any Third Party Claim in the event the third party claimant is willing to accept the Escrow Shares in full or partial settlement therefor.

(f) Stockholders' Representative and Parent Representative.

(i) MPM BioVentures III-QP, L.P. is hereby constituted and appointed jointly as the Stockholders' Representative for and on behalf of the Indemnifying Stockholders to give and receive notices and communications, to authorize delivery to Parent of shares of Parent Common Stock from the Escrow Fund in satisfaction of indemnification claims by Parent, to object to such deliveries, negotiate, enter into settlements and compromises of, and comply with orders of courts with respect to such claims (including Third Party Claims), and to take all actions necessary or appropriate in the judgment of the Stockholders' Representative for the accomplishment of the foregoing. Such agency may be changed by from time to time upon not less than ten (10) days' prior written notice, executed by the Stockholders' Representative, to the Parent Representative. No bond shall be required of the Stockholders' Representative, and the Stockholders' Representative shall receive no compensation for his services. Notices or communications to or from the Stockholders' Representative shall constitute notice to or from Company and each of the Indemnifying Stockholders.

(ii) The Stockholders' Representative shall not be liable for any act done or omitted hereunder as Stockholders' Representative while acting in good faith and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. The Indemnifying Stockholders shall severally indemnify the Stockholders' Representative and hold him harmless against any loss, liability, or expense (including legal and accounting fees) incurred without gross negligence or bad faith on the part of the Stockholders' Representative and arising out of or in connection with the acceptance or administration of his duties hereunder.

(iii) A decision, act, consent or instruction of the Stockholders' Representative shall constitute a decision of all Indemnifying Stockholders for whom Escrow Shares otherwise issuable to them are deposited in escrow and shall be final, binding, and conclusive upon each such Indemnifying Stockholder, and Parent may rely upon any decision, act, consent, or instruction of the Stockholders' Representative as being the decision, act, consent or instruction of each and every such Indemnifying Stockholder. The Stockholders' Representative shall have the right to consent to the use of the Escrow Shares to settle any claims made hereunder. For purposes of clarification, in connection with the settlement or payment of any claims for indemnification hereunder, the "*Fair Market Value*" of the Escrow Shares as defined under this Article VIII, shall not be binding upon the Parent or Stockholders' Representative if they mutually agree upon any value other than Fair Market Value and shall also have the discretion to mutually agree to use the Escrow Shares to settle or pay any Third Party Claims.

(iv) John Pappajohn is hereby constituted and appointed jointly as the Parent Representative for and on behalf of the Parent to give and receive notices and communications, to negotiate, enter into settlements and compromises of, and comply with orders of courts with respect to such claims (including Third Party Claims), and to take all actions necessary or appropriate in the judgment of the Parent Representative for the accomplishment of the foregoing. Such agency may be changed by from time to time upon not less than ten (10) days' prior written notice, executed by the Parent Representative, to the Stockholders' Representative. No bond shall be required of the Parent Representative, and the Parent Representative shall receive no compensation for his services. Notices or communications to or from the Parent Representative shall constitute notice to or from Parent.

(v) The Parent Representative shall not be liable for any act done or omitted hereunder while acting in good faith and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. The Parent shall indemnify the Parent Representative and hold him harmless against any loss, liability, or expense incurred without gross negligence or bad faith on the part of the Parent Representative and arising out of or in connection with the acceptance or administration of his duties hereunder.

(vi) A decision, act, consent or instruction of the Parent Representative shall constitute a decision of Parent under this Article VIII and shall be final, binding, and conclusive upon Parent. The Stockholders' Representative and the Indemnifying Stockholders may rely upon any decision, act, consent, or instruction of the Parent Representative as being the decision, act, consent or instruction of the Parent. The Parent Representative shall have the right to consent to the use of the Escrow Shares to settle any claim for which Parent is entitled to indemnification under this Article VIII. For purposes of clarification, in connection with the settlement or payment of any claims for indemnification hereunder, the "*Fair Market Value*" of the Escrow Shares as defined under this Article VIII, shall not be binding upon the Parent Representative or Stockholders' Representative if they mutually agree upon any value other than Fair Market Value and shall also have the discretion to mutually agree to use the Escrow Shares to settle or pay any Third Party Claims.

8.6. Determination/Resolution of Claims.

(a) If an Indemnified Party wishes to make a claim for indemnification against an Indemnifying Party, such Indemnified Party shall deliver the Indemnification Notice to the Indemnifying Party and to the Escrow Agent on or before the expiration of the Survival Period. Such Indemnification Notice shall contain the amount of Adverse Consequences for which the Indemnified Party is seeking indemnification and shall set forth the reasons therefore in reasonable detail.

(b) If Parent asserts a claim upon the Escrow Fund by delivering an Indemnification Notice to the Stockholders' Representative and the Escrow Agent on or before the end of the Survival Period, the Escrow Agent shall retain in the Escrow Fund such number of shares of Parent Common Stock as shall be determined in accordance with Section 8.5(e) above.

(c) Unless the Stockholders' Representative shall notify Parent in writing within thirty (30) days after receipt of an Indemnification Notice that the Stockholders' Representative objects to any claim for indemnification set forth therein, which notice shall include a reasonable explanation of the basis for such objection, then such indemnification claim shall be deemed to be accepted by the Stockholders' Representative and the parties shall issue to the Escrow Agent a certificate executed by the Parent Representative and the Stockholders' Representative indicating what number of Escrow Shares are to be released to Parent. If the Stockholders' Representative shall timely notify Parent in writing that it objects to any claim for indemnification made in such an Indemnification Notice, Parent shall have fifteen (15) days from receipt of such notice to respond in a written statement to such objection. If after thirty (30) days following receipt of Parent's written statement, there remains a dispute as to any indemnification claims set forth in the Indemnification Notice, the Stockholders' Representative and the Parent Representative shall attempt in good faith for sixty (60) days to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholders' Representative and the Parent Representative should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties. Based upon the memorandum, the parties shall issue to the Escrow Agent a certificate executed by the Parent Representative and the Stockholders' Representative indicating what number of Escrow Shares are to be released to Parent. The Escrow Agent shall be entitled to rely on any such certificate and disburse Escrow Shares from the Escrow Fund in accordance with the terms thereof.

(d) If the Stockholders' Representative and the Parent Representative cannot resolve a dispute during the sixty-day period (or such longer period as the parties may agree to in writing), then such dispute shall be submitted (and either party may submit such dispute) for arbitration before a single arbitrator in Wilmington, Delaware, in accordance with the commercial arbitration rules of the American Arbitration Association then in effect. The Stockholders' Representative and the Parent Representative shall attempt to agree upon an arbitrator. In the event that the Stockholders' Representative and the Parent Representative are unable to agree upon an arbitrator within ten (10) days after the date on which the disputed matter may, under this Agreement, be submitted to arbitration, then either the Stockholders' Representative or the Parent Representative, upon written notice to the other, may apply for appointment of such arbitrator by the American Arbitration Association. Each party shall pay the fees and expenses of counsel used by it and 50% of the fees and expenses of the arbitrator and of the other expenses associated with the arbitration. The arbitrator shall render his decision within ninety (90) days after his appointment, such decision shall be in writing and shall be final and conclusive on the parties. The decision shall be submitted to the Escrow Agent which shall act in accordance therewith.

8.7. Indemnification Threshold. Notwithstanding anything to the contrary contained herein, no Person or Party shall have any obligation to indemnify Parent or Company, as the case may be, from and against any Adverse Consequences caused proximately by the breach of any representation or warranty of Parent or Company hereunder, as the case may be, until Parent or Company, as the case may be, has suffered Adverse Consequences by reason of all such breaches (or alleged breaches) in excess of $500,000 in the aggregate, with no single Adverse Consequence being valued at less than $50,000.

8.8. Other Indemnification Provisions.

(a) Any Indemnified Party seeking indemnification under this Article VIII shall be required to take all reasonable actions to mitigate the damages associated with the Adverse Consequences.

(b) Notwithstanding any provision contained in this Agreement, no indemnification claim shall be maintained by any party for breach of representations or warranties of the other party if such claiming party had knowledge of the breach of the representations and warranties on or before the Closing.

(c) No recovery for indemnification shall include recovery for special, incidental, punitive or consequential damages. All claims for indemnification shall be subject to reduction or offset for any tax benefits associated with or insurance proceeds applicable to the claim.

ARTICLE IX

GENERAL PROVISIONS

9.1. Survival. The agreements and covenants contained in this Agreement shall survive the Closing Date without limitation. The representations and warranties contained in this Agreement shall survive the Closing Date for a period of twelve (12) months.

9.2. Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy upon confirmation of receipt; (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service; or (c) on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

if to Parent or Merger Sub, to:

Healthcare Acquisition Corp.
666 Walnut Street, Suite 2116
Des Moines, Iowa 50309
Attn: Matthew P. Kinley
Phone: (515) 244-5746
Fax:

with a copy to:

Ellenoff Grossman & Schole LLP
370 Lexington Ave.
New York, New York 10017
Attn: Barry I. Grossman, Esq.
Phone: (212) 370-1300
Fax: (212) 370-7889

if to Company or Stockholders, to

PharmAthene, Inc.
175 Admiral Cochrane Drive, Suite #101
Annapolis, MD 21401
Attn: David P. Wright
President & Chief Executive Officer
Phone: (410) 571-8920
Fax: (410) 571-8927

with a copy to:

McCarter & English, LLP
Four Gateway Center
100 Mulberry Street
Newark, New Jersey 07102
Attn: Jeffrey A. Baumel, Esq.
Phone: (973) 639-5904
Fax: (973) 624-7070

If to Stockholders' Representative:

MPM BioVentures III-QP, LP
The John Hancock Tower
200 Clarendon Street
54th Floor
Boston, MA 02116
Attn: Steven St. Peter, M.D.
Phone: (617) 425-9200
Fax: (617) 425-9201

If to Parent Representative:

John Pappajohn
2116 Financial Center
Des Moines, Iowa 50309
Phone:
Fax: (515) 244-2346

9.3. Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The parties have participated jointly in the negotiating and drafting of this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

9.4. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that both parties need not sign the same counterpart.

9.5. Entire Agreement; No Third-Party Beneficiaries.

(a) This Agreement, including the schedules hereto, and the Confidentiality Agreement, dated January 12, 2007 between Company and Parent, constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

9.6. Governing Law; Waiver of Jury Trial.

(a) This Agreement and the transactions contemplated hereby, and all disputes between the parties under or related to this Agreement or the facts and circumstances leading to its execution, whether in contract, tort or otherwise, shall be governed by and construed in accordance with the internal laws of the State of Delaware, applicable to contracts executed in and to be performed entirely within the State of Delaware.

(b) **EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.6.**

9.7. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability or the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

9.8. Amendment. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

9.9. Extension; Waiver. At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of the party against which such waiver or extension is to be enforced. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

9.10. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties, and any attempt to make any such assignment without such consent shall be null and void. This Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

9.11. Submission to Jurisdiction; Waivers.

(a) Each of Company, Parent and Merger Sub hereby irrevocably agrees that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or assigns shall be brought and determined exclusively in any federal or state court of competent jurisdiction located in the State of Delaware and in the courts hearing appeals therefrom. Each party hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with Section (b) below, that its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and to the fullest extent permitted by applicable law, that the suit, action or proceeding in any such court is brought in an inconvenient forum, or that this Agreement, or the subject matter hereof, may not be enforced in or by such courts and further irrevocably waives, to the fullest extent permitted by applicable law, the benefit of any defense that would hinder, fetter or delay the levy, execution or collection of any amount to which the party is entitled pursuant to the final judgment of any court having jurisdiction. Each party irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered airmail, postage prepaid, to such party at its address set forth in this Agreement, such service of process to be effective upon acknowledgement of receipt of such registered mail. Nothing herein shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the other party in any other jurisdiction in which the other party in any other jurisdiction in which the other party may be subject to suit.

(b) Each of Company, Parent and Merger Sub hereby agrees that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 9.2 or in such other manner as may be permitted by applicable law shall be valid and sufficient service thereof.

9.12. Enforcement; Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

ARTICLE X

DEFINITIONS

As used in this Agreement terms not otherwise defined herein:

(a) "*8% Convertible Notes*" means the unsecured notes to be issued to certain noteholders of Company as Note Consideration in accordance with the Note Exchange Agreement which shall mature twenty four (24) months from the Effective Time, accrue interest at 8.00% per annum, and be convertible into shares of Parent Common Stock at $10.00 per share and be in substantially the form of Exhibit A attached hereto.

(b) *"Adverse Consequences"* means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, Liens, losses, expenses, and fees, including court costs and attorneys' fees and expenses.

(c) "*Alternative Transaction*" means any of the following events: (i) any tender or exchange offer, merger, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving Company (any of the above, a "*Business Combination Transaction*"), with any Person other than Parent, Merger Sub or any affiliate (as such term is defined in Rule 12b-2 promulgated under the Exchange Act) thereof (a "*Third Party*") or (ii) the acquisition by a Third Party of 10% or more of the outstanding shares of Company Common Stock, or of 10% or more of the assets or operations of Company, taken as a whole, in a single transaction or a series of related transactions, provided, however, that the following shall not be deemed Alternative Transactions: (x) the issuance by the Company of equity securities valued in the aggregate at no more than $5 million (subject to the limitation that the securities of the Company issued to the purchasers thereof will not convert into more than 625,000 shares of Parent Common Stock in the Merger); and, (y) licensing transactions or other strategic alliances.

(d) "*Board of Directors*" means the Board of Directors of any specified Person and any committees thereof.

(e) "*Business Day*" means any day on which banks are not required or authorized to close in the City of New York.

(f) "Code" mans the U.S. Internal Revenue Code of 1986, as amended.

(g) "*good standing*" means, when used with respect to the status of any entity domiciled or doing business in a particular state, that such entity has filed its most recent required annual report and (i) if a domestic entity, has not filed articles of dissolution, and (ii) if a foreign entity, has not applied for a certificate of withdrawal and is not the subject of a proceeding to revoke its certificate of authority.

(h) "*Indemnifying Stockholders*" means those holders of Company Capital Stock and outstanding Company Options and Company Warrants.

(i) "*Knowledge*" or any phrase of similar import shall mean the actual knowledge after reasonable investigation of any person holding the office or position, or fulfilling the function of a director or officer of Company.

(j) "*Liability*" means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

(k) "*Liens*" means any mortgage, deed of trust, security interest, pledge, lien, or other charge or encumbrance of any nature whatsoever except: (a) liens disclosed in the Company Financial Statements; (b) liens for taxes, assessments, or governmental charges or levies not yet due and delinquent; and (c) liens consisting of zoning or planning restrictions, easements, permits, any other restrictions or limitations on the use of real property or irregularities in title thereto which do not materially detract from the value of, or impair the use of, such property by Company, Parent or any of their respective subsidiaries).

(l) "*Material Adverse Effect*" with respect to a party shall mean any change, effect, event, occurrence or state of facts which is, or is reasonably expected to be, materially adverse to the business, financial condition, results of operations or prospects of such party and its subsidiaries, taken as a whole, other than any change, effect, event or occurrence relating to (i) the economy or securities markets of the United States or any other region in general or (ii) this Agreement or the transactions contemplated hereby or the announcement thereof or otherwise as contemplated by this Agreement or disclosed hereunder.

(m) *"Milestone Payment"* means payments made to the stockholders of Company as part of the Merger Consideration equal to 10% of the actual collections on gross sales of Valortim to the United States federal government (or a department thereof) until the earlier of (A) December 31, 2009, or (B) total aggregate milestone payments to the Stockholders equal $10 million. These payments shall be conditioned upon receipt by Company of an award, procurement or other contract (x) on or before December 31, 2007; (y) which provides for a procurement by the U.S. government (or a department thereof) of doses or treatments equal to or greater than 60,000; and (z) with a total contract value of $150 million or more, and otherwise no Milestone Payments shall be paid or due. Any Milestone Payments owed shall be determined, in arrears, by Parent within forty-five (45) days of the end of each fiscal quarter based on actual collections from the U.S. government (or a department thereof) of gross sales, and shall be paid within three (3) business days of such determination. Subject to the limitations set forth above, the Stockholders shall be entitled to Milestone Payments related to collections prior to and including December 31, 2009.

(n) *"Note Conversion Shares"* means the shares of Parent Common Stock issuable upon conversion of the 8% Convertible Notes.

(o) "*the other party*" means, with respect to Company, Parent and means, with respect to Parent, Company

(p) "*PA Management Team*" means and refers to those persons identified on Schedule X(o).

(q) "*Parent Representative"* means John Pappajohn.

(r) "*Permitted Liens*" means (i) any liens for Taxes not yet due or which are being contested in good faith by appropriate proceedings; (ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other similar liens; (iii) pledges or deposits in connection with workers' compensation, unemployment insurance, and other social security legislation; and (iv) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto.

(s) "*Requisite Majority*" means (i) with respect to the Company Common Stock, the vote of the holders of 80% of the issued and outstanding shares of Common Stock and (ii) with respect to the Company Preferred Stock, the vote of holders of at least 66.66% of each outstanding series acting separately.

(t) "*SEC*" means the Securities and Exchange Commission.

(u) "*Valortim*" means a high affinity, fully human monoclonal antibody to *bacillus anthracis* protective antigen (PA) which fights the invading organism. It is designed to target and bind to PA cells and protect healthy human cells from infiltration by the certain toxins produced by the anthrax bacteria.

IN WITNESS WHEREOF, Parent, Merger Sub and Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

HEALTHCARE ACQUISITION CORP.

By: /s/ John Pappajohn
Name: John Pappajohn
Title: Chairman

PAI ACQUISITION CORP.

By: /s/ John Pappajohn
Name: John Pappajohn
Title: Chairman

PHARMATHENE, INC.

By: /s/ David P. Wright
Name: David P. Wright
Title: President and Chief Executive Officer

Soley as to Article VIII and Article IX:

John Pappajohn, as Parent Representative

/s/ John Pappajohn

Soley as to Article VIII and Article IX:

MPM BioVentures III-QP, L.P., as Stockholder Representative

By: /s/ Ansbert Gadicke
Name: Ansbert Gadicke
Title: Stockholder Representative

Schedule 1.9(b)(i)

EXCHANGE RATIO

See attached.

Schedule 1.24

COMPANY AFFILIATES

Officers

David P. Wright, President & Chief Executive Officer
Christopher C. Camut, Vice President and Chief Financial Officer
Francesca Cook, Vice President Policy & Government Affairs
Solomon Langermann, Ph.D., Vice President & Chief Scientific Officer
Wayne Morges, Ph.D., Vice President Regulatory Affairs & Quality
Eric I. Richman, Vice President Business Development & Strategic Planning
Valerie Riddle, M.D., FACP, Vice President & Medical Director
Richard Schoenfeld, Ph.D., Vice President of Operations

Board of Directors

James H. Cavanaugh, Ph.D., Director
Elizabeth Czerepak, Director
Ansbert Gadicke, M.D., Director
John M. Gill, Ph.D., Director
Joel McCleary, Chairman of the Board
John Mekalanos, Ph.D., Director
Steven St. Peter, M.D., Director
David P. Wright, Director

Holders of 10% of more of the Company's Common Stock on a Fully-Diluted Basis

Healthcare Ventures VII, L.P.
MPM BioVentures III-QP, L.P.
Nexia Biotechnologies, Inc.

Schedule X(o)

PA MANAGEMENT TEAM

David Wright
Eric Richman
Francesca Cook
Chris Camut
Solomon Langermann
Wayne Morges
Valerie Riddle
Richard Schoenfeld

NOTE EXCHANGE AGREEMENT

This Note Exchange Agreement (this "Agreement"), dated as of ●, 2007, is made by and among PharmAthene, Inc., a Delaware corporation previously known as Healthcare Acquisition Corp. (the "Company") and the holders identified on Annex I (together with their respective successors and assigns, the "Holders"; the Holders are each individually referred to herein as a "Holder").

WHEREAS, Healthcare Acquisition Corp. ("HAQ"), PAI Acquisition Corp., a wholly owned subsidiary of HAQ ("Merger Sub"), and PharmAthene, Inc. ("Old PharmAthene"), entered into an Agreement and Plan of Merger, dated January ●, 2007 (the "Merger Agreement") pursuant to which Old PharmAthene merged with Merger Sub and Old PharmAthene was the surviving entity (the "Merger"), and HAQ simultaneously changed its name to "PharmAthene, Inc." upon the consummation of the Merger.

WHEREAS, Old PharmAthene and the Holders (other than Canadian Medical Discoveries Fund Inc. ("CMDF"))entered into a Note Purchase Agreement dated May 5, 2006 (the "U.S. Note Purchase Agreement") pursuant to which Old PharmAthene issued an aggregate initial principal amount of $9,768,089 of its 8% Senior Secured Convertible Notes (the "Old U.S. Notes") to the Holders (other than CMDF), as set forth in Annex II.

WHEREAS, PharmAthene Canada, Inc. ("PharmAthene Canada"), a wholly owned subsidiary of Old PharmAthene, Old PharmAthene and CMDF entered into a Note Purchase Agreement dated July 24, 2006 (the "Canadian Note Purchase Agreement") and, collectively with the U.S. Note Purchase Agreement, the "Note Purchase Agreements") pursuant to which PharmAthene Canada issued an 8% Senior Secured Convertible Note with a principal amount of $2,000,000 (the "Old Canadian Note" and, collectively with the Old U.S. Notes, the "Old Notes") to CMDF as set forth in Annex II.

WHEREAS, Sections 6.2(i) and 6.3(iv) of the Merger Agreement contemplate as a condition to the Merger Closing that the Company issue senior unsecured convertible notes in the initial principal amount of $12,500,000 on the terms described herein (the "New Notes"), in exchange for the Old Notes (principal and interest) outstanding immediately prior to the closing of the Merger ("Merger Closing").

NOW, THEREFORE, in consideration of the mutual promises, representations, warranties and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Holders mutually agree as follows. Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Merger Agreement or Note.

ARTICLE 1

EXCHANGE OF NOTES

1.1 Issuance of New Notes in Exchange for Old Notes.

In full satisfaction of Old PharmAthene's obligations (all outstanding principal and accrued interest thereon) under the outstanding Old Notes, the Company shall issue New Notes on the terms and in the form set forth in Annex III in the initial aggregate principal amount of $12,500,000 (the "Exchange"). As of a result the Exchange, the Old Notes shall cease to be outstanding obligations of Old PharmAthene and the Old Canadian Note shall cease to be an outstanding obligation of PharmAthene Canada.

(a) and all rights of the Holders under the Note Purchase Agreements and related obligations and agreements referred to therein shall be terminated in full.

(b) Subject to the satisfaction or waiver of the conditions set forth in Article 3, the closing of the Exchange shall simultaneously with the Merger Closing or such other time as the parties may mutually agree (the "Closing Date").

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company and Old PharmAthene represent and warrant to each of the Holders that, except as set forth on the Schedule of Exceptions attached hereto as Schedule ● (the "Schedule of Exceptions"), the statements contained in this Article II are true and correct as of the Closing Date as though made as of the Closing Date, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties are true and correct as of such date). The Schedule of Exceptions shall be arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Article II, but any information disclosed under any section or subsection of the Schedule of Exceptions shall be deemed to be disclosed into any other section or subsection where such disclosure would be reasonably apparent.

2.1 Organization, Qualifications and Corporate Power

(a) The Company and Old PharmAthene are each corporations duly incorporated, validly existing and in good standing under the laws of the State of Delaware and are each duly licensed or qualified to transact business as a foreign corporation and is in good standing in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification. Pharmathene Canada, Inc., a Canadian corporation ("Pharmathene Canada") is a corporation duly incorporated, validly existing and in good standing under the laws of Canada and is duly licensed or qualified to transact business and is in good standing, in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification. The Company and Old PharmAthene and each of its Subsidiaries has the corporate power and authority to own and hold its properties and to carry on its business as now conducted and as proposed to be conducted, and in the case of the Company, to execute, deliver and perform the Transaction Documents to which it is a party. The Company and Old PharmAthene have the corporate power and authority to issue, sell and deliver the New Notes and to issue and deliver the shares of common stock issuable upon conversions of the Notes (the "Conversion Shares").

2.2 Authorization of Agreements, Etc.

(a) The execution and delivery by the Company of the Transaction Documents to which it is a party, the performance by the Company of its obligations thereunder, the issuance, sale and delivery of the New Notes by the Company and the reservation of the Conversion Shares by the Company have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Certificate of Incorporation of the Company, as amended to date (the "Charter") or the By-laws of the Company, as amended to date (the "By-laws"), or any provision of any indenture, agreement or other instrument to which the Company or any of its Subsidiaries or any of its properties or assets is bound, or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge, restriction, claim or encumbrance of any nature whatsoever upon any of the properties or assets of the Company or any of its Subsidiaries.

(b) The New Notes have been duly authorized and, when issued and delivered pursuant to this Agreement, will have been duly executed, issued and delivered and will constitute valid and legally binding obligations of the Company, enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The Company has an authorized capitalization and outstanding shares of capital stock as set forth in Schedule ●, and all of the issued shares of capital stock of the Company been duly authorized and validly issued and are fully paid and non-assessable; the Conversion Shares initially issuable upon conversion of the New Notes have been duly authorized and reserved for issuance and, when issued and delivered in accordance with the provisions of the New Notes, will be validly issued, fully paid and non-assessable; the issuance of Conversion Shares upon conversion of the New Notes will not be subject to any preemptive or similar rights; and all of the outstanding securities of the Company were issued in compliance with all applicable federal and state securities laws.

(d) The designations, powers, preferences, rights, qualifications, limitations and restrictions in respect of each class and series of authorized capital stock of the Company are as set forth in the Company's Charter, and all such designations, powers, preferences, rights, qualifications, limitations and restrictions are valid, binding and enforceable and in accordance with all applicable laws. Except as set forth in Schedule ●, (x) no Person owns of record or is known to the Company to own beneficially any share of Common Stock, (y) no subscription, warrant, option, convertible security, or other right (contingent or other) to purchase or otherwise acquire equity securities of the Company or any of its Subsidiaries is authorized or outstanding and (z) there is no commitment by the Company or any of its Subsidiaries to issue shares, subscriptions, warrants, options, convertible securities, or other such rights or to distribute to holders of any of its equity securities any evidence of indebtedness or asset. Except as provided for in the Company 's Charter or as set forth in the attached Schedule ●, neither the Company nor any of its Subsidiaries has any obligation (contingent or other) to purchase, redeem or otherwise acquire any of its equity securities or any interest therein or to pay any dividend or make any other distribution in respect thereof. Except as set forth in the attached Schedule ●, to the best of the Company 's knowledge there are no voting trusts or agreements, stockholders' agreements, pledge agreements, buy-sell agreements, rights of first refusal, preemptive rights or proxies relating to any securities of the Company or any of its Subsidiaries (whether or not the Company or such Subsidiaries is a party thereto). All of the outstanding securities of the Company were issued in compliance with all applicable Federal and state securities laws.

(e) The outstanding shares of Common Stock are listed on the American Stock Exchange and the Conversion Shares into which the New Notes are convertible will have been approved for listing on the American Stock Exchange, subject to notice of issuance, on or before the Closing Date.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF THE HOLDERS

Each Holder, severally and not jointly, represents and warrants to the Company, Old PharmAthene and PharmaAthene Canada that, the statements contained in this Article III are true and correct as of the Closing Date as though made as of the Closing Date, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties are true and correct as of such date).

3.1 Holder is an "accredited investor" as defined by Rule 501 of Regulation D ("Regulation D") promulgated under the Securities Act of 1933, as amended (the "Act"), and Holder is capable of evaluating the merits and risks of Holder's investment in the New Notes and has the ability and capacity to protect Holder's interests. If the Holder is a resident of Canada or otherwise subject to the provincial securities laws of Canada, such Holder is an "accredited investor" (as that term is defined in National Instrument 45-106), was not formed for the specific purpose of and is not being used primarily for the purpose of purchasing and holding a New Note on the underlying Common Stock, and is neither a "Limited States Person" (as that term is defined in Rule 902 of Regulation S under the Act) nor purchasing the New Note for the account of a Limited States Person or for resale to a United States person or to a person in the United States.

3.2 Holder understands that, except as provided in the Registration Rights Agreement the New Notes and the underlying shares of Common Stock, have not been registered under the Act on the ground that the issuance thereof is exempt under Section 4(2) of the Act and/or Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering and that, in the view of the United States Securities and Exchange Commission (the "Commission"), the statutory basis for the exception claimed would not be present if any of the representations and warranties of Holder contained in this Agreement are untrue or, notwithstanding the Holder's representations and warranties, the Holder currently has in mind acquiring any of the New Notes for resale upon the occurrence or non-occurrence of some predetermined event.

3.3 Holder is purchasing the New Notes and, in the event that the Holder should acquire any underlying Common Stock, will be acquiring such Common Stock, as principal for its own account, and not for the benefit of any other person, for investment purposes and not with a view to distribution or resale, nor with the intention of selling, transferring or otherwise disposing of all or any part thereof for any particular price, or at any particular time, or upon the happening of any particular event or circumstance, except selling, transferring, or disposing the New Notes and the underlying Common Stock as applicable, in full compliance with all applicable provisions of the Act, the rules and regulations promulgated by the Commission thereunder, and applicable state securities laws; and that an investment in the New Notes (and underlying shares of Common Stock) is not a liquid investment.

3.4 Holder confirms that Holder has had the opportunity to ask questions of, and receive answers from, the Company or any authorized person acting on its behalf concerning the Company and its business and to obtain any additional information, to the extent possessed by the Company (or to the extent it could have been acquired by the Company without unreasonable effort or expense) necessary to verify the accuracy of the information received by Holder. In connection therewith, Holder acknowledges that Holder has had the opportunity to discuss the Company's business, management and financial affairs with the Company's management or any authorized person acting on its behalf. Holder has received and reviewed the Company's Proxy Statement as filed with the Commission and all the information concerning the Company and the New Notes, both written and oral, that Holder desires. Without limiting the generality of the foregoing, Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, Holder has relied solely on Holder's own knowledge and understanding of the Company and its business based upon Holder's own due diligence investigations and the Company's filings with the Commission.

3.5 If the Holder is a resident of Canada or otherwise subject to the provincial securities laws of Canada, such Holder understands and acknowledges that (i) the New Notes have not been, and that the underlying Common Stock will not be, qualified for distribution under provincial securities laws, (ii) the New Note will be distributed to such Holder pursuant to exemptions from the registration and prospectus filing requirements of applicable provincial securities laws, and (iii) the New Note and if acquired, the underlying Common Stock, must be held by such Holder indefinitely unless a subsequent distribution thereof is qualified for distribution under the applicable provincial securities laws, or is exempt from the prospectus registration requirements thereof.

3.6 Holder has all requisite legal and other power and authority to execute and deliver this Agreement and to carry out and perform Holder's obligations under the terms of this Agreement. This Agreement constitutes a valid and legally binding obligation of Holder enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

3.7 Holder has carefully considered and has discussed with the Holder's legal, tax, accounting and financial advisors, to the extent the Holder has deemed necessary, the suitability of this investment and the transactions contemplated by this Agreement for the Holder's particular federal, state, provincial, local and foreign tax and financial situation and has independently determined that this investment and the transactions contemplated by this Agreement are a suitable investment for the Holder. Holder understands that Holder (and not the Company) shall be responsible for Holder's own tax liability that may arise as a result of the investment in the New Notes or the transactions contemplated by this Agreement, except as provided in Section 6.1(b).

3.8 Holder acknowledges that an investment in the New Notes is speculative and involves a high degree of risk and that Holder can bear the economic risk of the acceptance of the New Notes, including a total loss of his/her/its investment. Holder recognizes and understands that no federal, state, provinical or foreign agency has recommended or endorsed the purchase of the New Notes. Holder acknowledges that Holder has such knowledge and experience in financial and business matters that Holder is capable of evaluating the merits and risks of an investment in the New Notes and of making an informed investment decision with respect thereto.

3.9 Because of the legal restrictions imposed on resale or transfer of the New Notes, Holder understands that the Company shall have the right to note stop-transfer instructions in its records, and Holder has been informed of the Company's intention to do so. Any sales, transfers, or other dispositions of the New Notes by Holder, if any, will be made in compliance with the Act and any other applicable securities laws, and all applicable rules and regulations promulgated thereunder and the terms of this Agreement.

ARTICLE 4

CONDITIONS RELATING TO THE CLOSING

4.1 Conditions to the Obligations of the Holders at the Closing.

The several obligations of each Holder to consummate the transactions to be performed by it in connection with the Closing Date are, unless otherwise indicated, subject to the satisfaction of the following conditions as of the Closing Date, unless such conditions are waived by such Holder with respect to the Closing Date:

(a) Consents, Permits, and Waivers. The Company shall have obtained any and all approvals, consents, permits and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement and the other Transaction Documents.

(b) Authorizations. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body that are required in connection with the lawful issuance and sale of the New Notes pursuant to this Agreement shall have been duly obtained and shall be effective on and as of the Closing Date.

(c) Representations, Warranties and Covenants. The representations and warranties made by the Company, Old PharmAthene and Pharmathene Canada in Article II hereof and in the other Transaction Documents shall be true and correct when made, and shall be true and correct as of such Closing Date with the same force and effect as if they had been made on and as of that date. Company shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date. As of the Closing Date, Company shall have delivered a certificate to the foregoing effect to the Holders.

ARTICLE 5

COVENANTS

5.1 Board of Directors and Committee Designation Rights; Voting Agreement.

(a) The Company shall maintain a Board of Directors consisting of no more than seven (7) individuals and each of the Compensation Committee and Nominating Committee (or other committees serving similar functions) shall have no more than three (3) members. The Noteholder Directors (as defined below) shall have the right, but not the obligation, to collectively designate up to two (2) Noteholder Directors who shall serve as members of each such committee of the Company's Board of Directors. All subsidiaries of the Company shall maintain a Board of Directors whose composition is identical to that of the Company's Board of Directors.

(b) Each Holder agrees to vote all of his, her or its voting securities (including, but not limited to, the New Notes and Conversion Shares) in the Company, whether now owned or hereafter acquired or which such Holder may be empowered to vote (together the "Voting Securities"), from time to time and at all times, in whatever manner shall be necessary to ensure that at each meeting of Holders at which an election of directors is held or pursuant to any written consent of Holders, the following persons (each a "Noteholder Director") shall be elected to the Company's Board of Directors pursuant to Section ● of the Company's Certificate of Incorporation:

(i) one individual designated by Bear Sterns Health Innoventures L.P. (or any recipient of all of the Notes held by Bear Sterns Health Innoventures L.P. as of the date hereof), which individual shall initially be Elizabeth Czerepak;

(ii) one individual designated by HealthCare Ventures VII, L.P. (or any recipient of all of the Notes held by HealthCare Ventures VII, L.P. as of the date hereof), which individual shall initially be James Cavanaugh; and

(iii) one individual designated by MPM BioVentures III, L.P. (or any recipient of all of the Notes held by MPM BioVentures III, L.P. as of the date hereof), which individual shall initially be Steven St. Peter.

(c) The Board of Directors of the Company shall nominate such Noteholder Directors and recommend that the Holders vote to elect such Noteholder Directors as directors of the Company and shall fill any vacancies that may arise upon the resignation of any of the Noteholder Directors with a new Noteholder Director designated in accordance with the foregoing Section 4.1.

(d) The Company shall provide at least thirty (30) days' prior written notice of all intended mailings of notices to the Holders for a meeting at which directors are to be elected (or an action by written consent pursuant to which directors are to be elected) to each party entitled to elect a director pursuant to Section 4.1 (the "Designator"), and each Designator shall notify the Company in writing, at least ten (10) days prior to such mailing, of the person(s) so designated as nominees for election as directors in accordance with Section 4.1. If any Designator shall fail to give notice to the Company as provided above, it shall be deemed that such Designator's Noteholder Director then serving as director shall be such Designator's nominee for reelection.

(e) Each Holder also agrees to vote all of his, her or its Voting Securities from time to time and at all times in whatever manner as shall be necessary to ensure that (i) no director elected pursuant to Section 4.1 of this Agreement may be removed from office other than for cause unless (A) such removal is directed or approved by the Designator entitled under Section 4.1 to designate that director or (B) the Designator originally entitled to designate such director pursuant to Section 4.1 is no longer so entitled to designate such director; and (ii) any vacancies created by the resignation, removal or death of a Noteholder Director shall be filled pursuant to the provisions of Section 4.1. All Holders agree to execute any written consents required to effectuate the obligations of this Agreement, and the Company agrees at the request of any Designator to call a special meeting of stockholders for the purpose of electing directors.

(f) The Company shall take such action as is necessary to convene meetings of its Board of Directors and meetings of the Holders for the election of the directors (or to act by written consent) in order to elect and re-elect the Noteholder Directors in accordance with Section 4.1.

(g) The Company hereby represents and warrants that as of the date hereof the transactions contemplated hereby are not inconsistent with the Company's Certificate of Incorporation or By-laws and agrees that until such time as the obligations under this Section 4.1 have expired, the Company will not take any action or amend its Certificate of Incorporation or By-laws in a manner inconsistent with or in derogation of this Agreement.

(h) The New Notes shall not be transferred unless the recipient of such New Notes agrees in writing to be bound by the terms hereof.

(i) Each Holder hereby grants to the Secretary of the Company, in the event that such Holder fails to vote its Voting Securities as required by this Agreement, a proxy coupled with an interest in all Voting Securities beneficially owned by such Holder to vote such Voting Securities in accordance with this Section 4.1, which proxy is irrevocable until this Agreement terminates pursuant to its terms or is amended to remove such grant of proxy in accordance with Section 4.1 of this Agreement.

(j) The provisions of this Section 5.1 shall remain in effect at all times while at least thirty percent (30%) of the aggregate Principal amount of the New Notes outstanding on the date hereof remain outstanding. Upon the date that this Section 5.1 ceases to be in force or effect, the Company shall have the right, without further action or consent by the Holders, to amend its Certificate of Incorporation to remove any and all such provisions related to the subject matter of this Section 5.1.

5.2 Restrictions on Sale or Hedging of the Underlying Common Stock.

Each Holder agrees that, during the period commencing on the Issuance Date and ending on the 180th day following such date (the "Lock-Up Period"), such Holder will not, without the prior written consent of the Company (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of Common Stock underlying the New Notes or (ii) enter into any swap or any other agreement or any transaction that hedges or transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock underlying the New Notes, whether any such transaction or swap described in clause (i) or (ii) above is to be settled by delivery of Common Stock, in cash or otherwise. The foregoing shall in no way restrict the ability of the Holder to freely transfer the New Notes in accordance with applicable law.

Notwithstanding the foregoing, each Holder may transfer the Common Stock underlying the New Notes (i) as a bona fide gift or gifts, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, (iii) by will or intestate succession, (iv) to any affiliate (as defined in Regulation C under the Securities Act) of the undersigned, (v) if such Holder is a corporation or similar entity, to any wholly-owned subsidiaries of such corporation or similar entity, (vi) if such Holder is a partnership, limited liability company or similar entity, to any partners or members of such partnership, limited liability company or similar entity provided, however, that it shall be a condition to such transfer that the transferee (or trustee in the case of clause (ii) above) execute an agreement stating that such transferee (or trustee) is receiving and holding such Common Stock subject to the provisions of this Section 5.2 and there shall be no further transfer of such Common Stock except in accordance with this Section 5.2, and provided further that any such transfer pursuant to clause (ii) and (iii) above shall not involve a disposition for value. For purposes of this Section 5.2, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin. Notwithstanding anything to the contrary in this Agreement, any Holder who is a resident of Canada or otherwise subject to the provincial securities laws of Canada, acknowledges and agrees that it will transfer or resell the New Note issued to it and the underlying Common Stock only in accordance with the requirements of all applicable securities laws. This Section 5.2 shall in no way restrict the ability of each Holder to convert at any time the New Notes into Common Stock pursuant to Section 3 of the New Notes; provided, however, that such Common Stock issued upon conversion of the New Notes shall remain subject to the restrictions contained in this Section 5.2.

In the event the securities held by the officers, directors and/or 1% or greater securityholders of the Company are released from the restrictions set forth in agreements similar to this Agreement, the same percentage of the securities held by the undersigned shall be immediately and fully released from any remaining restrictions under this Agreement concurrently therewith. In the event that the undersigned is released early pursuant to the terms of the this paragraph, the Company shall notify the undersigned concurrently with notification to such other released party.

5.3 Registration Rights. The Company agrees that the Holders from time to time of Registrable Securities (as defined in the Registration Rights Agreement, dated the date hereof, by and among investor signatories thereto (the "Registration Rights Agreement")) are entitled to the benefits of the Registration Rights Agreement. Further, if (i) the Registration Statement (as defined in Registration Rights Agreement), covering all of the Registrable Securities required to be covered thereby is (A) not filed with the SEC on or before sixty (60) days after the Closing Date (as defined in Registration Rights Agreement) (a "Filing Failure") or (B) not declared effective by the SEC on or before the date that is six (6) months after the Closing Date (an "Effectiveness Failure") or (ii) after the effective date of such Registration Statement, after the second (2nd) consecutive Business Day (other than during an allowable blackout period pursuant to Section 3(g) of the Registration Rights Agreement ("Blackout Period")) on which sales of all of the Registrable Securities required to be included on such Shelf Registration Statement cannot be made pursuant to such Registration Statement or otherwise (including, without limitation, because of a failure to keep such Registration Statement effective, to disclose such information as is necessary for sales to be made pursuant to such Registration Statement or to maintain the listing of the Common Stock) (a "Maintenance Failure"), then, as relief for the damages to any Holder by reason of any such delay in or reduction of its ability to sell the Registrable Securities, the Company shall pay to each Holder of Registrable Securities relating to such Registration Statement an amount in cash equal to (A) one percent (1.0%) of the aggregate principal amount of such Holder's Notes relating to the Registrable Securities included in such Registration Statement on each of the following dates: (i) the day of a Filing Failure; (ii) the day of an Effectiveness Failure; and (iii) the initial day of a Maintenance Failure, and (B) one percent (1.0%) of the aggregate principal amount of such Holder's Notes relating to the Registrable Securities included in such Registration Statement on each of the following dates: (i) on every thirtieth (30th) day after the initial day of a Filing Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Filing Failure is cured; (ii) on every thirtieth (30th) day after the initial day of an Effectiveness Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Effectiveness Failure is cured; (iii) on every thirtieth (30th) day after the initial day of a Maintenance Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Maintenance Failure is cured. The payments to which a Holder shall be entitled pursuant to this Section 5.3 are referred to herein as "Registration Default Payments." Registration Default Payments shall be paid on the earlier of (I) the last day of the calendar month during which such Registration Default Payments are incurred and (II) the third (3rd) Business Day after the event or failure giving rise to the Registration Default Payments is cured. In the event the Company fails to make Registration Default Payments in a timely manner, such Registration Default Payments shall bear interest at the rate of one and one-half percent (1.5%) per month (prorated for partial months) until paid in full. If the Company has declared a Blackout Period, a Maintenance Failure shall be deemed not to have occurred and be continuing in relation to the Registration Statement during the period specified in Section 3(g) of the Registration Rights Agreement. Registration Default Payments shall be payable from the first day any Blackout Period exceeds the period specified in Section 3(g) of the Registration Rights Agreement. Registration Default Payments shall cease to accrue at the end of the Effectiveness Period (as defined in Registration Rights Agreement); provided that the foregoing shall not affect the Company's obligation to make Registration Default Payments for any period prior to such time.

5.4 Reservation of Conversion Shares. The Company shall initially reserve out of its authorize and unissued shares of Common Stock a number of shares of Common Stock for each of the New Notes equal to 120% of the Conversion Rate with respect to the Conversion Amount of each such New Note as of the applicable Issuance Date. So long as any of the New Notes are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the conversion of the New Notes, 120% of the number of shares of Common Stock as shall from time to time be necessary to effect the conversion of all of the New Notes then outstanding; provided that at no time shall the number of shares of Common Stock so reserved be less than the number of shares required to be reserved by the previous sentence (without regard to any limitations on conversions) (the "Required Reserve Amount"). The initial number of shares of Common Stock reserved for conversions of the New Notes and each increase in the number of shares so reserved shall be allocated pro rata among the holders of the New Notes based on the Principal amount of the New Notes held by each holder at the Closing (as defined in the Note Exchange Agreement) or increase in the number of reserved shares, as the case may be (the "Authorized Share Allocation"). In the event that a Holder shall sell or otherwise transfer any of such Holder's New Notes, each transferee shall be allocated a pro rata portion of such Holder's Authorized Share Allocation. Any shares of Common Stock reserved and allocated to any Person which ceases to hold any New Notes shall be allocated to the remaining holders of New Notes, pro rata based on the outstanding Principal amount of the New Notes then held by such holders.

5.5 Insufficient Authorized Shares. If at any time while any of the New Notes remain outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon conversion of the New Notes at least a number of shares of Common Stock equal to the Required Reserve Amount (an "Authorized Share Failure"), then the Company shall take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the New Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than seventy-five (75) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its commercially reasonable efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

5.6 Listing. Immediately prior to or on the Closing Date, the Company shall secure the listing of all of the Registrable Securities (as defined in the Registration Rights Agreement) upon each national securities exchange and automated quotation system, if any, upon which the Common Stock is then listed (subject to official notice of issuance) and shall maintain such listing of all Registrable Securities from time to time issuable under the terms of the Transaction Documents. The Company shall maintain the Common Stock's authorization for quotation on the principal exchange or market in which it is listed. Neither the Company nor any of its Subsidiaries shall take any action which would be reasonably expected to result in the delisting or suspension of the Common Stock on the principal market in which it is listed. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section 4.6.

ARTICLE 6

MISCELLANEOUS

6.1 Expenses.

(a) The Company will pay, and save the Holders harmless against all liability for the payment of the reasonable costs and expenses, including without limitation the reasonable fees and expenses of one counsel selected by the Required Holders, incurred by the Holders in connection with the ownership of the Notes including, without limitation, any amendment or waiver of, or enforcement of, any Transaction Document relating to the transactions contemplated hereby.

(b) The Company further agrees that they will pay, and will save each Holder harmless from, any and all Liabilities with respect to any stamp or similar taxes which may be determined to be payable in connection with the execution and delivery and performance of the Transaction Documents or any modification, amendment or alteration of the terms or provisions of the Transaction Documents (excluding any taxes on the income or gain of the Holder).

6.2 Further Assurances.

The Company shall duly execute and deliver, or cause to be duly executed and delivered, at its own cost and expense, such further instruments and documents and to take all such action, in each case as may be necessary or proper in the reasonable judgment of the Holders to carry out the provisions and purposes of this Agreement and the other Transaction Documents.

6.3 Remedies.

In case any one or more of the representations, warranties, covenants and/or agreements set forth in this Agreement or any other Transaction Documents (as shall have been breached by a party, the other parties may proceed to protect and enforce its rights either by suit in equity and/or by action at law, including an action for damages as a result of any such breach and/or an action for specific performance of any such covenant or agreement contained in this Agreement or any of the other Transaction Documents, and may exercise all remedies under the New Notes.

6.4 Survival.

The representations, warranties, covenants and agreements made herein shall survive any investigation made by any party hereto, the execution and delivery of this Agreement and the closing of the transactions contemplated hereby.

6.5 Successors and Assigns.

This Agreement shall bind and inure to the benefit of the Company and the Holders and their respective successors and permitted assigns. Subject to applicable federal, state and provincial securities laws and regulations, the Holders may freely assign either this Agreement or any of their rights, interests, or obligations hereunder without the prior written approval of the other parties, except (x) to a Competitor as defined in the New Notes and (y) subject to the provisions set forth in Section 17 thereof, and (2) in the case of an assignment of an Old Canadian Note, such Old Canadian Note may not be assigned to a nonresident of Canada for purpose of the Income Tax Act (Canada) or to a partnership other than a Canadian partnership within the meaning of the Income Tax Act (Canada).

6.6 Entire Agreement.

This Agreement and the other writings referred to herein or delivered pursuant hereto (including the other Transaction Documents) which form a part hereof contain the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous arrangements or understandings with respect thereto.

6.7 Notices.

All notices, requests, demands, claims, consents and other communications delivered hereunder (whether or not required to be delivered hereunder) shall be deemed to be sufficient and duly given if contained in a written instrument (a) personally delivered, (b) sent by fax, (c) sent by nationally-recognized overnight courier guaranteeing next business day delivery or (d) sent by first class registered or certified mail, postage prepaid, return receipt requested, in each case addressed as follows:

(a) if to the Company, to:

PharmAthene, Inc.
175 Admiral Cochrane Drive
Suite 101
Annapolis, MD 21401
Attention: David P. Wright
Fax: (410) 571-8927

with a copy to:

Jeffrey A. Baumel, Esq.
McCarter & English, LLP
100 Mulberry Street
Newark, NJ 07102
Fax: (973) 624-7070; and

(b) if to a Holder, to him, her or it at his, her or its address set forth on such Holder’s signature block hereto

with a copy to:

James T. Barrett, Esq.
Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue
Boston, MA 02199-7613
Fax: (617) 227-4420

or to such other address as the party to whom such notice or other communication is to be given may have furnished to each other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) when delivered, if personally delivered, (ii) when sent, if sent by telecopy on a business day (or, if not sent on a business day, on the next business day after the date sent by telecopy), (iii) on the next business day after dispatch, if sent by nationally recognized, overnight courier guaranteeing next business day delivery, and (iv) on the fifth business day following the date on which the piece of mail containing such communication is posted, if sent by mail.

6.8 Amendments, Modifications and Waivers.

The terms and provisions of this Agreement and the New Notes may not be modified or amended, nor may any of the provisions hereof be waived, temporarily or permanently, except pursuant to a written instrument executed by the Company and the Required Holders.

6.9 Governing Law; Waiver of Jury Trial.

(a) All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether in the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. In furtherance of the foregoing, the internal law of the State of Delaware will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily or necessarily apply.

(b) BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT OR ANY DOCUMENTS RELATED HERETO.

6.10 No Third Party Reliance.

Anything contained herein to the contrary notwithstanding, the representations and warranties of the Company contained in this Agreement (a) are being given by the Company as an inducement to the Holders to enter into this Agreement and the other Transaction Documents (and the Company acknowledges that the Holders have expressly relied thereon) and (b) are solely for the benefit of the Holders. Accordingly, no third party (including, without limitation, any holder of capital stock of the Company) or anyone acting on behalf of any holder thereof other than the Holders, and each of them, shall be a third party or other beneficiary of such representations and warranties and no such third party shall have any rights of contribution against the Holders or the Company with respect to such representations or warranties or any matter subject to or resulting in indemnification under this Agreement or otherwise.

6.11 Publicity.

Neither the Holders nor the Company shall issue any press release or make any public disclosure regarding the transactions contemplated hereby unless such press release or public disclosure is approved by the Required Holders and those parties mentioned in such press release or public disclosure in advance. Notwithstanding the foregoing, each of the parties hereto may, in documents required to be filed by it with the Commission or other regulatory bodies, make such statements with respect to the transactions contemplated hereby as each may be advised by counsel is legally necessary or advisable.

6.12 Severability.

It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the law and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, in the event that any provision of this Agreement would be held in any jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as to not be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

6.13 Independence of Agreements, Covenants, Representations and Warranties.

All agreements and covenants hereunder shall be given independent effect so that if a certain action or condition constitutes a default under a certain agreement or covenant, the fact that such action or condition is permitted by another agreement or covenant shall not affect the occurrence of such default, unless expressly permitted under an exception to such covenant. In addition, all representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness of or a breach of a representation and warranty hereunder. The exhibits and schedules attached hereto are hereby made part of this Agreement in all respects.

6.14 Counterparts; Facsimile Signatures.

This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement. Facsimile counterpart signatures to this Agreement shall be acceptable and binding.

6.15 Headings.

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

* * * * *

IN WITNESS WHEREOF, each of the undersigned has duly executed this Note Exchange Agreement as of the date first written above.

PHARMATHENE, INC.

By: _____

Name:
Title:

PHARMATHENE, INC.

By: _____

Name:
Title:

PHARMATHENE CANADA, INC.

By: _____

Name:
Title:

HOLDERS

[INSERT NAMES OF NOTEHOLDERS]

ANNEX I

[INSERT NAMES OF HOLDERS]

ANNEX II

[INSERT LIST OF OLD U.S. NOTES AND HOLDERS]

ANNEX III

[INSERT LIST OF NEWS NOTES AND HOLDERS]

[FORM OF SENIOR UNSECURED CONVERTIBLE NOTE]

NEITHER THE ISSUANCE AND SALE OF THIS NOTE NOR ANY SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE OR PROVINCIAL SECURITIES LAWS. THIS NOTE AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THIS NOTE OR THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL (SELECTED BY THE HOLDER AND REASONABLY ACCEPTABLE TO THE COMPANY), IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY, THAT THIS NOTE AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE MAY BE OFFERED FOR SALE, SOLD, ASSIGNED OR TRANSFERRED PURSUANT TO AN EXEMPTION FROM REGISTRATION; PROVIDED THAT SUCH OPINION OF COUNSEL SHALL NOT BE REQUIRED IN CONNECTION WITH ANY SUCH SALE, ASSIGNMENT OR TRANSFER TO AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS PRIOR TO SUCH SALE, ASSIGNMENT OR TRANSFER A HOLDER OF ADDITIONAL NOTES (AS SUCH TERM IS DEFINED IN THIS NOTE) OR AN AFFILIATE OF THE HOLDER OF THIS NOTE, OR (C) IN THE CASE OF A HOLDER RESIDENT IN CANADA OR OTHERWISE SUBJECT TO THE PROVINCIAL SECURITIES LAWS OF CANADA, A PROSPECTUS QUALIFIYING THE DISTRIBUTION OF THIS NOTE OR THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTES OR AN EXEMPTION THEREFROM, OR (II) THE HOLDER PROVIDES THE COMPANY WITH ASSURANCE (REASONABLY SATISFACTORY TO THE COMPANY) THAT SUCH NOTE OR THE SHARES OF COMMON STOCK ISSUABLE UPON THE CONVERSION OF THE NOTE CAN BE SOLD, ASSIGNED OR TRANSFERRED PURSUANT TO RULE 144.

ANY TRANSFEREE OF THIS NOTE SHOULD CAREFULLY REVIEW THE TERMS OF THIS NOTE, INCLUDING, WITHOUT LIMITATION, SECTIONS 3(c)(iii) AND 17(a) HEREOF. THE PRINCIPAL AMOUNT REPRESENTED BY THIS NOTE AND, ACCORDINGLY, THE SECURITIES ISSUABLE UPON CONVERSION HEREOF MAY BE LESS THAN THE AMOUNTS SET FORTH ON THE FACE HEREOF PURSUANT TO SECTION 3(c)(iii) OF THIS NOTE.

THIS NOTE HAS BEEN ISSUED PURSUANT TO THE NOTE EXCHANGE AGREEMENT (AS SUCH TERM IS DEFINED IN THIS NOTE), ARTICLE FOUR OF WHICH CONTEMPLATES CERTAIN RESTRICTIONS ON SALES, PURCHASES, HEDGING TRANSACTIONS, VOTING WITH RESPECT TO BOARD OF DIRECTOR NOMINEES AND CERTAIN OTHER TRANSACTIONS RELATING TO THE COMPANY'S SECURITIES. ANY ASSIGNEE OR TRANSFEREE OF THIS NOTE SHALL BE SUBJECT TO THE RESTRICTIONS SET FORTH IN ARTICLE FOUR OF THE NOTE EXCHANGE AGREEMENT.

PHARMATHENE, INC.

SENIOR UNSECURED CONVERTIBLE NOTE

Issuance Date: [Month] ●, 2007 Principal: U.S. $[●]
No. [●] (subject to Section 3(c)(iii) hereof)

FOR VALUE RECEIVED, PharmAthene, Inc., a Delaware corporation (the "**Company**"), hereby promises to pay to [NAME OF HOLDER] or registered assigns ("**Holder**") the amount set out above as the Principal (as reduced pursuant to the terms hereof pursuant to redemption, conversion or otherwise, the "**Principal**") when due, whether upon the Maturity Date (as defined below), acceleration, redemption or otherwise (in each case in accordance with the terms hereof) and to accrue interest ("**Interest**") on any outstanding Principal at the Interest Rate (as defined below), from [Month] ●, 2007 (the "**Initial Issuance Date**") until the same becomes due and payable, whether upon the Maturity Date, acceleration, conversion, redemption or otherwise (in each case, in accordance with the terms hereof). This Senior Unsecured Convertible Note (including all Senior Unsecured Convertible Notes issued in exchange, transfer or replacement hereof, this "**Note**" and such other Senior Unsecured Convertible Notes, the **"Additional Notes")** is one of an issue of Senior Unsecured Convertible Notes issued pursuant to the Note Exchange Agreement (as defined below) (collectively, the "**Notes**"). Certain capitalized terms used herein are defined in Section 27.

(1) MATURITY. On the Maturity Date, the Holder shall surrender the Note to the Company and the Company shall pay to the Holder an amount in cash representing all outstanding Principal, accrued and unpaid Interest and accrued and unpaid Late Charges (as defined below), if any. The "**Maturity Date**" shall be [Month] ●, 2009 [INSERT Two year anniversary of Initial Issuance Date].

(2) INTEREST; INTEREST RATE. Interest on this Note shall commence accruing on the Initial Issuance Date and shall be computed on the basis of a 360-day year comprised of twelve 30-day months and shall be payable entirely in cash with respect to the unpaid balance of any Principal upon the repayment thereof. Prior to the payment of Interest upon repayment, Interest on this Note shall accrue at the Interest Rate and be payable by way of inclusion of the Interest in the Conversion Amount in accordance with Section 3(b)(i). If an Event of Default occurs and such Event of Default is subsequently cured, the adjustment referred to in Section 27(xviii) shall cease to be effective as of the date of such cure; provided that the Interest as calculated at such increased rate during the continuance of such Event of Default shall continue to apply to the extent relating to the days after the occurrence of such Event of Default through and including the date of cure of such Event of Default. All payments of Interest on the Notes shall be made on a pro rata basis in accordance with each holder's percentage ownership of then outstanding Notes.

(3) CONVERSION OF NOTES. This Note shall be convertible into shares of Common Stock, on the terms and conditions set forth in this Section 3.

(a) Conversion Right. At any time or times on or after the date first set forth above as the Issuance Date (the "**Issuance Date**"), the Holder shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount (as defined below) into fully paid and nonassessable shares of Common Stock in accordance with Section 3(c), at the Conversion Rate (as defined below). The Company shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock in excess of one half of one share, the Company shall round such fraction of a share of Common Stock up to the nearest whole share. The Company shall pay any and all stock transfer, stamp, documentary and similar taxes (excluding any taxes on the income or gain of the Holder) that may be payable with respect to the issuance and delivery of shares of Common Stock to the Holder upon conversion of any Conversion Amount.

(b) Conversion Rate. The number of shares of Common Stock issuable upon conversion of any Conversion Amount pursuant to Section 3(a) shall be determined by dividing (x) such Conversion Amount by (y) the Conversion Price (the "**Conversion Rate**").

(i) "**Conversion Amount**" means the sum of (A) the portion of the Principal to be converted, redeemed or otherwise with respect to which this determination is being made, (B) accrued and unpaid Interest with respect to such Principal and (C) accrued and unpaid Late Charges with respect to such Principal and Interest.

(ii) "**Conversion Price**" means, as of any Conversion Date (as defined below) or other date of determination, $10.00, subject to adjustment as provided herein (including, without limitation, adjustment pursuant to Section 6).

(c) Mechanics of Conversion.

(i) Optional Conversion. To convert any Conversion Amount into shares of Common Stock on any date (a "**Conversion Date**"), the Holder shall (A) transmit by facsimile (or otherwise deliver), for receipt on or prior to 4:00 p.m., New York Time, on such date, a copy of an executed notice of conversion in the form attached hereto as Exhibit I (the "**Conversion Notice**") to the Company and (B) if required by Section 3(c)(iii), cause this Note to be delivered to the Company as soon as practicable on or following such date. On or before 4:00 p.m., New York Time, on the first (1st) Business Day following the date of receipt of a Conversion Notice, the Company shall transmit by facsimile a confirmation of receipt of such Conversion Notice to the Holder (at the facsimile number provided in the Conversion Notice) and the Company's transfer agent, if any (the "**Transfer Agent**"). On or before 4:00 p.m., New York Time, on the third (3rd) Business Day following the date of receipt of a Conversion Notice (the "**Share Delivery Date**"), the Company shall issue and deliver to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder shall be entitled. If this Note is physically surrendered for conversion as required by Section 3(c)(iii) and the outstanding Principal of this Note is greater than the Principal portion of the Conversion Amount being converted, then the Company shall as soon as practicable and in no event later than three (3) Business Days after receipt of this Note and at its own expense, issue and deliver to the holder a new Note (in accordance with Section 17(d)), representing the outstanding Principal not converted. The Person or Persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

(ii) Company's Failure to Timely Convert. If, at any time, the Company shall fail to issue a certificate to the Holder upon conversion of any Conversion Amount on or prior to the date which is seven (7) Business Days after the Conversion Date (a "**Conversion Failure**"), then (A) the Company shall pay damages to the Holder for each day of such Conversion Failure in an amount equal to 1.5% of the product of (I) the sum of the number of shares of Common Stock not issued to the Holder on or prior to the Share Delivery Date and to which the Holder is entitled, and (II) the Closing Sale Price of the Common Stock on the Share Delivery Date and (B) the Holder, upon written notice to the Company, may void its Conversion Notice with respect to, and retain or have returned, as the case may be, any portion of this Note that has not been converted pursuant to such Conversion Notice; provided that the voiding of a Conversion Notice shall not affect the Company's obligations to make any payments which have accrued prior to the date of such notice pursuant to this Section 3(c)(ii) or otherwise.

(iii) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion of any portion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Company unless (A) the full Conversion Amount represented by this Note is being converted or (B) the Holder has provided the Company with prior written notice (which notice may be included in a Conversion Notice) requesting physical surrender and reissue of this Note. The Holder and the Company shall maintain records showing the Principal, Interest and Late Charges converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of this Note upon conversion.

(iv) Pro Rata Conversion; Disputes. In the event that the Company receives a Conversion Notice from more than one holder of Notes for the same Conversion Date and the Company can convert some, but not all, of such portions of the Notes submitted for conversion, the Company shall convert from each holder of Notes electing to have Notes converted on such date a pro rata amount of each such holder's portion of its Notes submitted for conversion based on the principal amount of Notes submitted for conversion on such date by such holder relative to the aggregate principal amount of all Notes submitted for conversion on such date. In the event of a dispute between the Company and any holders of Notes that are subject to any such Conversion Notice or among any holders of Notes that are subject to any such Conversion Notice as to the number of shares of Common Stock issuable to the Holder in connection with a conversion of this Note, the Company shall issue to the Holder the number of shares of Common Stock not in dispute and resolve such dispute in accordance with Section 22.

(4) RIGHTS UPON EVENT OF DEFAULT.

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

(i) the Company's failure to pay to the Holder any amount of Principal when and as due under this Note (including, without limitation, the Company's failure to pay any Redemption Price);

(ii) the Company's failure to pay to the Holder any amount of Interest, Late Charges or other amounts (other than the amounts specified in clause (i)) when and as due under this Note if such failure continues for a period of at least thirty (30) Business Days;

(iii) any acceleration prior to maturity of any Indebtedness referred to in clause (a) or (b) of the definition thereof of the Company or any of its Subsidiaries which individually or in the aggregate is equal to or greater than $250,000 principal amount of Indebtedness (following the expiration of all applicable grace periods);

(iv) the Company or any of its Material Subsidiaries, pursuant to or within the meaning of Title 11, U.S. Code, or any similar Federal, foreign or state law for the relief of debtors (collectively, "**Bankruptcy Law**"), (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a receiver, trustee, assignee, liquidator or similar official (a "**Custodian**"), (D) makes a general assignment for the benefit of its creditors or (E) admits in writing that it is generally unable to pay its debts as they become due;

(v) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that is not vacated, set aside or reversed within sixty (60) days that (A) is for relief against the Company or any of its Material Subsidiaries in an involuntary case, (B) appoints a Custodian of the Company or any of its Material Subsidiaries or (C) orders the liquidation of the Company or any of its Material Subsidiaries;

(vi) a final judgment or judgments for the payment of money aggregating in excess of $5,000,000 are rendered against the Company or any of its Subsidiaries and which judgments are not, within sixty (60) days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within sixty (60) days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $5,000,000 amount set forth above so long as the Company provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Company will receive the proceeds of such insurance or indemnity within sixty (60) days of the issuance of such judgment;

(vii) the Company breaches any covenant or agreement or materially breaches any representation or warranty in any Transaction Document (except for Section 14(f) of the Notes and Section 5.3 of Note Exchange Agreement), and such breach continues for a period of at least thirty (30) days after written notice thereof from one or more Holders to the Company; or

(viii) if at any time while at least thirty percent (30%) of the aggregate Principal amount of the Notes outstanding on the date hereof remain outstanding (x) the Board of Directors fails to include three (3) Directors designated pursuant to Section ● of the Company's Certificate of Incorporation ("Noteholder Directors"), provided that the Company shall have thirty (30) Business Days following the resignation, removal or death or disability of a Noteholder Director to appoint a successor Noteholder Director, unless such failure is the result of the failure by the Holders to notify the Company of the name of the replacement Noteholder Directors, in which event the thirty (30) Business Day period shall be extended until a date which is ten (10) Business Days after notice of the name and background of the replacement Noteholder Directors is given to the Company, or (y) without the consent of the persons then serving as Noteholder Directors, the Board of Directors exceeds seven (7) directors, or the Compensation Committee or Nominating Committee (or other committees serving similar functions) exceeds three (3) members, or (z) the Noteholder Directors are not afforded the right to appoint two (2) members of each of the Compensation Committee and Nominating Committee (or committees serving similar functions).

(b) Rights Upon Event of Default. Promptly after the occurrence of an Event of Default with respect to this Note, the Company shall deliver written notice thereof (an "**Event of Default Notice**") to the Holder. If an Event of Default with respect to the Company described in Sections 4(a)(iv), 4(a)(v) or 4(a)(viii) has occurred, all the Notes then outstanding shall automatically become immediately due and payable. If any Event of Default described in Sections 4(a)(i), 4(a)(ii), 4(a)(iii), 4(a)(vi) or 4(a)(vii) has occurred and is continuing, holders of not less than two-thirds of the aggregate Principal amount of the Notes then outstanding (the "**Required Holders**") may at any time at its or their option, by notice or notices to the Company (an "**Event of Default Payment Notice**"), declare all the Notes then outstanding to be immediately due and payable. Upon any Notes becoming due and payable under this Section 4(b), whether automatically or by declaration, such Notes will forthwith mature and the the entire unpaid Principal, plus all accrued and unpaid Interest and Late Charges, shall become immediately due and payable (the "**Event of Default Price**"). Payments required by this Section 4(b) shall be made in accordance with the provisions of Section 12.

(5) RIGHTS UPON FUNDAMENTAL TRANSACTION AND CHANGE OF CONTROL.

(a) Assumption. The Company shall not enter into or be party to a Fundamental Transaction unless the Successor Entity assumes in writing all of the obligations of the Company under this Note and the other Transaction Documents in accordance with the provisions of this Section 5(a) pursuant to written agreements on or prior to such Fundamental Transaction, including the agreement to deliver to each holder of Notes in exchange for such Notes a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to the Notes, including, without limitation, having a principal amount and interest rate equal to the principal amounts and the interest rates of the Notes held by such holder (the "**Successor Note**"). Upon the occurrence of any Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Note with the same effect as if such Successor Entity had been named as the Company herein, until such time as the Successor Note is delivered. Upon consummation of a Reclassification or Fundamental Transaction as a result of which holders of Common Stock shall be entitled to receive stock, securities, cash, assets or any other property with respect to or in exchange for such Common Stock, the Company or Successor Entity, as the case may be, shall deliver to the Holder confirmation that there shall be issued upon conversion or redemption of this Note at any time after the consummation of such Reclassification or Fundamental Transaction, in lieu of the shares of Common Stock (or other securities, cash, assets or other property) issuable upon the conversion or redemption of the Notes prior to such Reclassification or Fundamental Transaction, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of such Reclassification or Fundamental Transaction had this Note been converted immediately prior to such Reclassification or Fundamental Transaction, as adjusted in accordance with the provisions of this Note. The provisions of this Section shall apply similarly and equally to successive Fundamental Transactions and shall be applied without regard to any limitations on the conversion or redemption of this Note.

(b) Redemption upon Change of Control. No sooner than fifteen (15) days nor later than ten (10) days prior to the consummation of a Change of Control (but not prior to the public announcement of such Change of Control), the Company shall deliver written notice thereof to the Holder (a "**Change of Control Notice**"). If at any time during the period (the "**Change of Control Measuring Period**") beginning after the Holder's receipt of a Change of Control Notice and ending on the date of the consummation of such Change of Control (or, in the event a Change of Control Notice is not delivered at least ten (10) days prior to a Change of Control, at any time on or after the date which is ten (10) days prior to a Change of Control and ending ten (10) days after the consummation of such Change of Control), the Holder may require the Company to redeem all (but not less than all) of this Note ("**Optional Change of Control Redemption**") by delivering written notice thereof ("**Optional Change of Control Redemption Notice**") to the Company, provided, however, the Company shall not be required to redeem any amount pursuant to such notice unless Holders of not less than two-thirds of the aggregate Principal amount of the Notes then outstanding submit Optional Change of Control Redemption Notices. An Optional Change of Control Redemption required by this Section 5 shall be made in accordance with the provisions of Section 12. If this Note is subject to redemption pursuant to this Section 5 it shall be redeemed by the Company at a price equal to the Conversion Amount ("**the Change of Control Redemption Price**"). Notwithstanding anything to the contrary in this Section 5, until the Change of Control Redemption Price (together with any interest thereon) is paid in full, the Conversion Amount submitted for redemption under this Section 5(b) (together with any interest thereon) may be converted, in whole or in part, by the Holder into shares of Common Stock pursuant to Section 3.

(c) Redemption of Illiquid Consideration After Conversion. Following the Company's entry into a definitive agreement relating to a Fundamental Transaction, the Company will notify each Holder not later than the 10^{th} day following the effective date of such Fundamental Transaction of the determination by the Company's board of directors, made in good faith, of the fair market value of the Illiquid Consideration at the time of such Fundamental Transaction, and each Holder shall have the right, exercisable for thirty (30) days following the delivery of such notice, to require the Company to redeem all or any part of the Illiquid Consideration received upon conversion of its Notes for cash in the amount of such fair market value; provided that such notice shall specify in reasonable detail the basis for such determination. In the event that the Holder disagrees with such determination of fair market value, the Holder may require that such fair market value be determined in accordance with the provisions of Section 22.

(6) RIGHTS UPON ISSUANCE OF PURCHASE RIGHTS AND OTHER CORPORATE EVENTS.

(a) Purchase Rights. If the Company at any time, or from time to time, grants, issues or sells any (i) Options, (ii) Convertible Securities or (iii) rights to purchase stock, warrants, securities or other property, pro rata to all record holders of any class of Common Stock (the "**Purchase Rights**"), then the person who is the Holder as of the Stock Record Date (as defined below) will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without taking into account any limitations or restrictions on the convertibility of this Note) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (the "**Stock Record Date**").

(b) Other Corporate Events. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Reclassification or Fundamental Transaction pursuant to which holders of shares of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a "**Corporate Event**"), the Company shall make appropriate provision to ensure that the Holder will thereafter have the right to receive upon a conversion of this Note, (i) in the event that the Common Stock remains outstanding after any such Corporate Event, in addition to the shares of Common Stock receivable upon such conversion, such securities or other assets to which the Holder would have been entitled with respect to such shares of Common Stock had such shares of Common Stock been held by the Holder upon the consummation of such Corporate Event (without taking into account any limitations or restrictions on the convertibility of this Note) or (ii) in the event that the Common Stock is no longer outstanding after any such Corporate Event, in lieu of the shares of Common Stock otherwise receivable upon such conversion, such securities or other assets received by the holders of shares of Common Stock in connection with the consummation of such Corporate Event in such amounts as the Holder would have been entitled to receive had such shares of Common Stock been held by the Holder upon the consummation of such Corporate Event (without taking into account any limitations or restrictions on the convertibility of this Note). The provisions of this Section shall apply similarly and equally to successive Corporate Events and shall be applied without regard to any limitations on the conversion or redemption of this Note. Notwithstanding this Section (6)(b), in no event shall the Company be obligated to distribute any Purchase Rights pursuant to this Section (6)(b) if and to the extent that it has distributed such Purchase Rights to the Holder pursuant to Section (6)(a).

(7) RIGHTS UPON ISSUANCE OF OTHER SECURITIES.

(a) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment of Conversion Price upon Subdivision or Combination of Common Stock; Stock Dividends. If, on or after the Merger Agreement Date, the Company at any time, or from time to time, subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time on or after the Merger Agreement Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior to such combination will be proportionately increased. Any adjustment under this Section 7(b) shall become effective at the close of business on the date the subdivision or combination becomes effective or, in the case of a stock dividend or distribution, the date of such event.

(c) (i)Adjustment of Conversion Price upon Cash Dividends and Distributions. If the Company at any time, or from time to time, pays a dividend or makes a distribution in cash to the record holders of any class of Common Stock, then immediately after the close of business on the day that the Common Stock trades ex-distribution, the Conversion Price then in effect shall be reduced to an amount equal to the product of (i) the Conversion Price in effect immediately prior to such dividend or distribution and (ii) the quotient determined by dividing (A) the Closing Sale Price of the Common Stock on the day that the Common Stock trades ex-distribution by (B) the sum of (1) the Closing Sale Price of the Common Stock on the day that the Common Stock trades ex-distribution plus (2) the amount per share of such dividend or distribution. The Company shall not be required to give effect to any adjustment in the Conversion Price pursuant to this Section 7(c) unless and until the net effect of one or more adjustments (each of which shall be carried forward until counted toward an adjustment), determined in accordance with this Section 7(c), shall have resulted in a change of the Conversion Price by at least 1%, and when the cumulative net effect of more than one adjustment so determined shall be to change the Conversion Price by at least 1%, such change in the Conversion Price shall thereon be given effect.

(ii) Adjustment of Conversion Price upon Distributions of Capital Stock, Indebtedness or Other Non-Cash Assets. If the Company at any time, or from time to time, distributes any shares of capital stock of the Company (other than Common Stock), evidences of indebtedness or other non-cash assets (including securities of any person other than the Company but excluding (1) dividends or distributions paid exclusively in cash or (2) dividends or distributions referred to in Section 7(b)) to the record holders of any class of Common Stock, then the Conversion Price then in effect shall be reduced to an amount equal to the product of (A) the Conversion Price then in effect and (B) a fraction of which the numerator shall be the Closing Sale Price share of the Common Stock on the record date fixed for determination of stockholders entitled to receive such distribution less the fair market value on such record date (as determined by the Board of Directors) of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date) and of which the denominator shall be the Closing Sale Price per share of the Common Stock on such record date. Notwithstanding the foregoing, if the securities distributed by the Company to the record holders of any class of Common Stock consist of capital stock of, or similar equity interests in, a Subsidiary or other business unit, the Conversion Price shall be decreased so that the same shall be equal to the rate determined by multiplying the Conversion Price in effect on the record date with respect to such distribution by a fraction the numerator of which shall be the average Closing Sale Price of one share of Common Stock over the Spinoff Valuation Period and of which the denominator shall be the sum of (x) the average Closing Sale Price of one share of Common Stock over the ten consecutive Trading Day period (the "**Spinoff Valuation Period**") commencing on and including the fifth Trading Day after the date on which "ex-dividend trading" commences on the Common Stock on the Eligible Market or such other national or regional exchange or market on which the Common Stock is then listed or quoted and (y) the average Closing Sale Price over the Spinoff Valuation Period of the portion of the securities so distributed applicable to one share of Common Stock, such adjustment to become effective immediately prior to the opening of business on the fifteenth Trading Day after the date on which "ex-dividend trading" commences.

(d) Other Events; Other Dividends and Distributions. If any event occurs of the type contemplated by the provisions of this Section 7 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's board of directors shall make in good faith an adjustment in the Conversion Price so as to protect the rights of the Holder under this Note; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 7.

(e) Notice of Adjustment. Whenever the Conversion Price is adjusted pursuant to this Section 7, the Company shall promptly mail notice of such adjustment to each Holder, which notice shall set forth the Conversion Price after adjustment, the date on which such adjustment became effective and a brief statement of the facts resulting in such adjustment.

(8) COMPANY'S RIGHT OF REDEMPTION.

(a) Call Redemption. At any time from and after the first anniversary of the Initial Issuance Date (the "**Call Redemption Eligibility Date**"), the Company shall have the right to redeem, from time to time, all or any portion of the Conversion Amount then remaining under this Note, as designated in the Call Redemption Notice, as of the Call Redemption Date (a "**Call Redemption**"). The portion of this Note subject to redemption pursuant to this Section 8(a) shall be redeemed by the Company at a price equal to the Conversion Amount being redeemed (the "**Call Redemption Price**", and together with the Change of Control Redemption Price and Significant Transaction Redemption Price, "**Redemption Prices**") on the date specified by the Company in the Call Redemption Notice (the "**Call Redemption Date**"), which date shall not be less than thirty (30) nor more than sixty (60) days after the Call Redemption Notice Date. The Company may exercise its right to require redemption under this Section 8(a) by delivering a written notice thereof to all of the holders of Notes and the Transfer Agent (the "**Call Redemption Notice**" and the date such notice is sent is referred to as the "**Call Redemption Notice Date**"). Each such Call Redemption Notice shall be irrevocable. The Call Redemption Notice shall state the aggregate Conversion Amount of the Notes which the Company has elected to be subject to Call Redemption from all of the holders of the Notes pursuant to this Section 8(a) (and analogous provisions under the Additional Notes). All Conversion Amounts converted by the Holder after the Call Redemption Notice Date shall reduce the Conversion Amount of this Note required to be redeemed on the Call Redemption Date. Redemptions made pursuant to this Section 8(a) shall be made in accordance with Section 12.

(b) Pro Rata Redemption Requirement. If the Company elects to cause a redemption of all or any portion of the Conversion Amount of this Note pursuant to Section 8(a), then it must simultaneously take the same action with respect to the Additional Notes and the payment in respect of such redemption shall be made on a pro rata basis in accordance with each holder's percentage ownership of then outstanding Notes.

(9) HOLDER'S RIGHT OF OPTIONAL REDEMPTION. No sooner than fifteen (15) days nor later than ten (10) days prior to the consummation of a Significant Transaction (but not prior to the public announcement of such Significant Transaction), the Company shall deliver written notice thereof to the Holder (a "**Significant Transaction Notice**"). If at any time during the period (the "**Significant Transaction Measuring Period**") beginning after the Holder's receipt of a Significant Transaction Notice and ending on the date of the consummation of such Significant Transaction (or, in the event a Significant Transaction Notice is not delivered at least ten (10) days prior to a Significant Transaction, at any time on or after the date which is ten (10) days prior to a Significant Transaction and ending ten (10) days after the consummation of such Significant Transaction), the Holder may require the Company to redeem all (but not less than all) of this Note ("**Optional Significant Transaction Redemption**") by delivering written notice thereof ("**Optional Significant Transaction Redemption Notice**") to the Company. An Optional Significant Transaction Redemption required by this Section 8 shall be made in accordance with the provisions of Section 12. If this Note is subject to redemption pursuant to this Section 9 it shall be redeemed by the Company at a price equal to the Conversion Amount ("**Significant Transaction Redemption Price**"**).** Notwithstanding anything to the contrary in this Section 9, until the Significant Transaction Redemption Price (together with any interest thereon) is paid in full, the Conversion Amount submitted for redemption under this Section 9 (together with any interest thereon) may be converted, in whole or in part, by the Holder into shares of Common Stock pursuant to Section 3.

(10) NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all of the provisions of this Note and take all action as may be required to protect the rights of the Holder of this Note.

(11) RESERVATION OF AUTHORIZED SHARES.

(a) Reservation. The Company shall initially reserve out of its authorized and unissued shares of Common Stock a number of shares of Common Stock for each of the Notes equal to 120% of the Conversion Rate with respect to the Conversion Amount of each such Note as of the applicable Issuance Date. So long as any of the Notes are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the conversion of the Notes, 120% of the number of shares of Common Stock as shall from time to time be necessary to effect the conversion of all of the Notes then outstanding; provided that at no time shall the number of shares of Common Stock so reserved be less than the number of shares required to be reserved by the previous sentence (without regard to any limitations on conversions) (the "**Required Reserve Amount**"). The initial number of shares of Common Stock reserved for conversions of the Notes and each increase in the number of shares so reserved shall be allocated pro rata among the holders of the Notes based on the Principal amount of the Notes held by each holder at the Closing (as defined in the Note Exchange Agreement) or increase in the number of reserved shares, as the case may be (the "**Authorized Share Allocation**"). In the event that a holder shall sell or otherwise transfer any of such holder's Notes, each transferee shall be allocated a pro rata portion of such holder's Authorized Share Allocation. Any shares of Common Stock reserved and allocated to any Person which ceases to hold any Notes shall be allocated to the remaining holders of Notes, pro rata based on the outstanding Principal amount of the Notes then held by such holders.

(b) Insufficient Authorized Shares. If at any time while any of the Notes remain outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon conversion of the Notes at least a number of shares of Common Stock equal to the Required Reserve Amount (an "**Authorized Share Failure**"), then the Company shall take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than seventy-five (75) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its commercially reasonable efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

(12) PAYMENT OF EVENT OF DEFAULT PRICE / HOLDER'S REDEMPTIONS.

(a) Mechanics. The Company shall deliver the applicable Event of Default Price to the Holder (x) in the case of an Event of Default under Section 4(a)(iv), 4(a)(v), or 4(a)(viii) immediately and (y) in the case of any other Event of Default, within five (5) Business Days after the Company's receipt of the Event of Default Payment Notice. If the Holder has submitted an Optional Change of Control Redemption Notice or Optional Significant Transaction Redemption Notice in accordance with Section 5(b) or Section 9, respectively, the Company shall deliver the applicable Redemption Price to the Holder concurrently with the consummation of the applicable transaction if such notice is received by the Company on or prior to the third (3rd) Business Day preceding the consummation of such transaction and otherwise within five (5) Business Days after the Company's receipt of such notice (assuming the applicable transaction is consummated). The Company shall deliver the Call Redemption Price to the Holder on or before the Call Redemption Date. In the event that the Company receives an Event of Default Payment Notice, Optional Significant Transaction Redemption Notice or Optional Change of Control Redemption Notice (each a "**Redemption Notice**") and does not pay the applicable Redemption Price to the Holder within the time period required, at any time thereafter and until the Company pays such unpaid Redemption Price in full, the Holder shall have the option, in lieu of redemption, to require the Company to promptly return to the Holder all or any portion of this Note representing the Conversion Amount that was submitted for redemption and for which the applicable Redemption Price (together with any Late Charges thereon) has not been paid by delivery of a written notice (a "**Redemption Voiding Notice**") to the Company at any time prior to such payment in full. Upon the Company's receipt of such Redemption Voiding Notice, (x) the Redemption Notice to which such Redemption Voiding Notice applies shall be null and void with respect to such Conversion Amount, (y) the Company shall immediately return this Note, or issue a new Note (in accordance with Section 17(d)) to the Holder representing such Conversion Amount and (z) the Conversion Price of this Note or such new Notes shall be adjusted to the lesser of (A) the Conversion Price as in effect on the date on which the Redemption Notice is voided and (B) the lowest Closing Bid Price of the Common Stock during the period beginning on and including the date on which the Redemption Notice is delivered to the Company and ending on and including the date on which the Redemption Notice is voided. The Holder's delivery of a Redemption Voiding Notice and exercise of its rights following such notice shall not affect the Company's obligations to make any payments of Late Charges which have accrued prior to the date of such notice with respect to the Conversion Amount subject to such notice.

(b) Redemption by Other Holders. Upon the Company's receipt of notice from any of the holders of the Additional Notes for redemption or repayment as a result of an event or occurrence substantially similar to the events or occurrences described in Section 4(b), Section 5(b) or Section 9 (each, an "**Other Redemption Notice**"), the Company shall promptly forward to the Holder by facsimile a copy of such notice. If the Company receives a Redemption Notice and one or more Other Redemption Notices during the seven (7) Business Day period beginning on and including the date which is three (3) Business Days prior to the Company's receipt of the Holder's Redemption Notice and ending on and including the date which is three (3) Business Days after the Company's receipt of the Holder's Redemption Notice and the Company is unable to redeem all Principal, interest and other amounts designated in such Redemption Notice and such Other Redemption Notices received during such seven (7) Business Day period, then the Company shall redeem a pro rata amount from each holder of the Notes (including the Holder) based on the Principal amount of the Notes submitted for redemption pursuant to such Redemption Notice and such Other Redemption Notices received by the Company during such seven Business Day period.

(13) VOTING RIGHTS. The Holder shall have no voting rights as the holder of this Note, except as required by law, including, but not limited to, the General Corporation Law of the State of Delaware, and as expressly provided in this Note, the Company's Certificate of Incorporation or any other Transaction Documents.

(14) OTHER COVENANTS.

(a) Corporate Existence. Subject to Section 5, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises; provided that the Company shall not be required to preserve its corporate existence or any such right or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes.

(b) Dilutive Issuances. For one year after the Initial Issuance Date, the Company shall not, in any manner issue or sell any rights, warrants or options to subscribe for or purchase Common Stock or directly or indirectly convertible into or exchangeable or exercisable for Common Stock at a price which varies or may vary with the market price of the Common Stock, including by way of one or more resets to any fixed price unless the conversion, exchange or exercise price of any such security cannot be less than the then applicable Conversion Price with respect to the Common Stock into which any Note is convertible, except the foregoing shall not apply to (x) grants of employee stock options under an Approved Stock Plan and (y) any rights, warrants or options to subscribe for or purchase Common Stock or directly or indirectly convertible into or exchangeable or exercisable for Common Stock that issued in connection with a strategic transaction unanimously approved by the Board of Directors.

(c) Listing. The Company shall promptly secure the listing of all of the Registrable Securities (as defined in the Registration Rights Agreement) upon each national securities exchange and automated quotation system, if any, upon which the Common Stock is then listed (subject to official notice of issuance) and shall maintain such listing of all Registrable Securities from time to time issuable under the terms of the Transaction Documents. The Company shall maintain the Common Stock's authorization for quotation on the principal exchange or market in which it is listed. Neither the Company nor any of its Subsidiaries shall take any action which would be reasonably expected to result in the delisting or suspension of the Common Stock on the principal market in which it is listed. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section 14(c).

(d) Reports by the Company. The Company covenants to make available to the Holder, within 15 days after the Company is required to file the same with the SEC, copies of the annual reports and of the information, documents, and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe) which the Company may be required to file with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act, or if the Company is not required to file information, documents, or reports pursuant to either of such sections, then to deliver to the Holder, in accordance with rules and regulations prescribed from time to time by the SEC, such of the supplementary and periodic information, documents, and reports which may be required pursuant to Section 13 of the Exchange Act; or, in respect of a security listed and registered on a national securities exchange or on NASDAQ as may be prescribed from time to time in such rules and regulations. At any time when the Company is not subject to Section 13 or 15(d) of the Exchange Act, upon request of Holder and prospective purchasers of Note or the Conversion Shares issuable upon conversion thereof, the Company will promptly furnish or cause to be furnished to such Holder and prospective purchasers, copies of the information required to be delivered to such Holder and prospective purchasers of such securities pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto) in order to permit compliance with Rule 144A in connection with resales by such holders of such securities. The Company will pay the expenses of printing and distributing to such holders and prospective purchasers all such documents. Delivery of such reports, information and documents to the Holder is for informational purposes only and the Holder's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder.

(e) Waiver of Usury Defense. The Company covenants (to the extent that it may lawfully do so) that it shall not assert, plead (as a defense or otherwise) or in any manner whatsoever claim (and shall actively resist any attempt to compel it to assert, plead or claim) in any action, suit or proceeding that the interest rate on the Notes violates present or future usury or other laws relating to the interest payable on any Indebtedness and shall not otherwise avail itself (and shall actively resist any attempt to compel it to avail itself) of the benefits or advantages of any such laws.

(f) Registration Rights. The Company agrees that the Holders from time to time of Registrable Securities (as defined in Registration Rights Agreement, dated ●, by and among investor signatories thereto (the "Registration Rights Agreement") are entitled to the benefits of the Registration Rights Agreement. Further, if (i) the Registration Statement (as defined in Registration Rights Agreement), covering all of the Registrable Securities required to be covered thereby is (A) not filed with the SEC on or before sixty (60) days after the Closing Date (as defined in Registration Rights Agreement) (a "**Filing Failure**") or (B) not declared effective by the SEC on or before the date that is six (6) months after the Closing Date (an "**Effectiveness Failure**") or (ii) after the effective date of such Registration Statement, after the second (2nd) consecutive Business Day (other than during an allowable blackout period pursuant to Section 3(g) of the Registration Rights Agreement ("**Blackout Period**")) on which sales of all of the Registrable Securities required to be included on such Shelf Registration Statement cannot be made pursuant to such Registration Statement or otherwise (including, without limitation, because of a failure to keep such Registration Statement effective, to disclose such information as is necessary for sales to be made pursuant to such Registration Statement or to maintain the listing of the Common Stock) (a "**Maintenance Failure**"), then, as relief for the damages to any Holder by reason of any such delay in or reduction of its ability to sell the Registrable Securities, the Company shall pay to each Holder of Registrable Securities relating to such Registration Statement an amount in cash equal to (A) one percent (1.0%) of the aggregate principal amount of such Holder's Notes relating to the Registrable Securities included in such Registration Statement on each of the following dates: (i) the day of a Filing Failure; (ii) the day of an Effectiveness Failure; and (iii) the initial day of a Maintenance Failure, and (B) one percent (1.0%) of the aggregate principal amount of such Holder's Notes relating to the Registrable Securities included in such Registration Statement on each of the following dates: (i) on every thirtieth (30th) initial day after the day of a Filing Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Filing Failure is cured; (ii) on every thirtieth (30th) day after the initial day of an Effectiveness Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Effectiveness Failure is cured; (iii) on every thirtieth (30th) day after the initial day of a Maintenance Failure and thereafter (prorated for periods totaling less than thirty (30) days) until such Maintenance Failure is cured. The payments to which a Holder shall be entitled pursuant to this Section 14(f) are referred to herein as "**Registration Default Payments**." Registration Default Payments shall be paid on the earlier of (I) the last day of the calendar month during which such Registration Default Payments are incurred and (II) the third (3rd) Business Day after the event or failure giving rise to the Registration Default Payments is cured. In the event the Company fails to make Registration Default Payments in a timely manner, such Registration Default Payments shall bear interest at the rate of one and one-half percent (1.5%) per month (prorated for partial months) until paid in full. If the Company has declared a Blackout Period, a Maintenance Failure shall be deemed not to have occurred and be continuing in relation to the Registration Statement during the period specified in Section 3(g) of the Registration Rights Agreement. Registration Default Payments shall be payable from the first day any Blackout Period exceeds the period specified in Section 3(g) of the Registration Rights Agreement. Registration Default Payments shall cease to accrue at the end of the Effectiveness Period (as defined in Registration Rights Agreement); provided that the foregoing shall not affect the Company's obligation to make Registration Default Payments for any period prior to such time. Whenever in this Note there is mentioned, in any context, the payment of interest on, or in respect of, any Note, such mention shall be deemed to include mention of the payment of liquidated damages on Notes constituting Registrable Securities as contemplated in the Registration Rights Agreement to the extent that, in such context, such liquidated damages are, were or would be payable in respect thereof pursuant to this Section 14(f).

(g) Compliance With Laws. The Company and its Subsidiaries shall at all times be in compliance with the Foreign Corrupt Practices Act; the PATRIOT Act, and all other applicable U.S. and non-U.S. anti-money laundering laws and regulations; and the laws, regulations and Executive Orders and sanctions programs administered by the OFAC, including, without limitation, the Anti-Money Laundering/OFAC Laws.

(15) VOTE TO ISSUE, OR CHANGE THE TERMS OF, NOTES. The affirmative vote at a meeting duly called for such purpose, or the written consent without a meeting, of the Required Holders shall be required for any change, amendment or waiver of any provision of this Note or the Additional Notes. Neither the Company nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of Interest, fees or otherwise, to any holder for or as inducement to any consent, waiver or amendment of any of the terms or provisions of the Notes unless such consideration is offered to be paid or is paid to all holders (on a pro rata basis in accordance with each holder's percentage ownership of then outstanding Notes). So long as any Notes remain outstanding, at no time shall the Company or any of its Subsidiaries, directly or indirectly, purchase or offer to purchase any of the outstanding Notes or exchange or offer to exchange for any consideration (including, without limitation, for cash, securities, property or otherwise) any outstanding Notes unless the Company or such Subsidiary, as applicable, purchases, offers to purchase, exchanges or offers to exchange the outstanding Notes of all of the holders for the same consideration (on a pro rata basis in accordance with each holder's percentage ownership of then outstanding Notes) and on identical terms.

(16) TRANSFER. This Note and the shares of Common Stock issuable upon conversion of this Note may not be offered for sale, sold, transferred or assigned (i) in the absence of (a) an effective registration statement for this Note or the shares of Common Stock issuable upon conversion of this Note, or (b) an opinion of counsel (selected by the Holder and reasonably acceptable to the Company), in a form reasonable acceptable to the Company, that this Note and the shares of Common Stock issuable upon conversion of this Note may be offered for sale, sold, assigned or transferred pursuant to an exemption from registration; provided that such opinion of counsel shall not be required in connection with any such sale, assignment or transfer to an institutional accredited investor that is prior to such sale, assignment or transfer is a holder of Additional Notes or an affiliate of the Holder, or (c) in the case of a Holder resident in Canada or otherwise subject to the provincial securities laws of Canada, a prospectus qualifying the distribution of this Note or the shares of Common Stock issuable upon conversion of this Note or an exemption therefrom, or (ii) the Holder provides the Company with assurance (reasonably satisfactory to the Company) that such Note or the shares of Common Stock issuable upon the conversion of the Note can be sold, assigned or transferred pursuant to Rule 144; provided, however, that no event may this Note be offered for sale, sold, assigned or transferred to a Competitor **This Note has been issued pursuant to the Note Exchange Agreement, Article Four of which contemplates certain restrictions on sales, purchases, hedging transactions, voting with respect to director nominees and certain other transactions relating to the Company's securities. Any assignee or transferee of this Note shall be subject to the restrictions set forth in Article Four of the Note Exchange Agreement**.

(17) REISSUANCE OF THIS NOTE.

(a) Transfer. This Note is issued in registered form pursuant to Treasury Regulations section 1.871-14(c)(1). The Company (or its agent) will maintain a record of the holders of the Notes, and of Principal and Interest thereon as required by that regulation. The Note may be transferred or otherwise assigned only by surrender of this Note and issuance of a new Note in accordance with this Section 18, and neither this Note nor any interests therein may be sold, transferred or assigned to any Person except upon satisfaction of the conditions specified in this Section 17. If this Note is to be transferred or assigned, the Holder shall surrender this Note to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Note (in accordance with Section 17(d)), registered as the Holder may request, representing the outstanding Principal being transferred by the Holder and, if less than the entire outstanding Principal is being transferred, a new Note (in accordance with Section 17(d)) to the Holder representing the outstanding Principal not being transferred. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of Section 3(c)(iii) following conversion or redemption of any portion of this Note, the outstanding Principal represented by this Note may be less than the Principal stated on the face of this Note.

(b) Lost, Stolen or Mutilated Note. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Company shall execute and deliver to the Holder a new Note (in accordance with Section 17(d)) representing the outstanding Principal.

(c) Note Exchangeable for Different Denominations. This Note is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Note or Notes (in accordance with Section 17(d) and in Principal amounts of at least $100,000) representing in the aggregate the outstanding Principal of this Note, and each such new Note will represent such portion of such outstanding Principal as is designated by the Holder at the time of such surrender.

(d) Issuance of New Notes. Whenever the Company is required to issue a new Note pursuant to the terms of this Note, such new Note (i) shall be of like tenor with this Note, (ii) shall represent, as indicated on the face of such new Note, the Principal remaining outstanding (or in the case of a new Note being issued pursuant to Section 17(a) or Section 17(c), the Principal designated by the Holder which, when added to the principal represented by the other new Notes issued in connection with such issuance, does not exceed the Principal remaining outstanding under this Note immediately prior to such issuance of new Notes), (iii) shall have an issuance date, as indicated on the face of such new Note, which is the same as the Issuance Date of this Note, (iv) shall have the same rights and conditions as this Note, and (v) shall represent accrued Interest and Late Charges on the Principal and Interest of this Note, from the Initial Issuance Date.

(18) REMEDIES, CHARACTERIZATIONS, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note and any of the other Transaction Documents at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Holder's right to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Note. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

(19) PAYMENT OF COLLECTION, ENFORCEMENT AND OTHER COSTS. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note or (b) there occurs any bankruptcy, reorganization, receivership of the Company or other proceedings affecting Company creditors' rights and involving a claim under this Note, then the Company shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, reasonable attorneys' fees and disbursements.

(20) CONSTRUCTION; HEADINGS. This Note shall be deemed to be jointly drafted by the Company and the initial holders of this Note and shall not be construed against any person as the drafter hereof. The headings of this Note are for convenience of reference and shall not form part of, or affect the interpretation of, this Note.

(21) FAILURE OR INDULGENCE NOT WAIVER. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

(22) DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Closing Bid Price, the Closing Sale Price, the fair market value of Illiquid Consideration, or, the arithmetic calculation of the Conversion Rate or the Redemption Price, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within three (3) Business Days of receipt, or deemed receipt, of the Conversion Notice or Redemption Notice or other event giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation within five (5) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within one Business Day submit via facsimile (a) the disputed determination of the Closing Bid Price, the Closing Sale Price, or fair market value of Illiquid Consideration, to an independent, reputable investment bank selected by the Company or (b) the disputed arithmetic calculation of the Conversion Rate or the Redemption Price to the Company's independent, outside accountant. The Company, at the Company's expense, shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten (10) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

(23) NOTICES; PAYMENTS.

(a) Notices. Whenever notice is required to be given under this Note, unless otherwise provided herein, such notice shall be given in accordance with the Note Exchange Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Note, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder of any adjustment of the Conversion Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment.

(b) Payments. Whenever any payment of cash is to be made by the Company to any Person pursuant to this Note, such payment shall be made in lawful money of the United States of America by a check drawn on the account of the Company and sent via overnight courier service to such Person at such address as previously provided to the Company in writing (which address, in the case of each of the initial holders of this Note, shall initially be as set forth on the Schedule of Holders attached to the Note Exchange Agreement); provided that the Holder may elect to receive a payment of cash via wire transfer of immediately available funds by providing the Company with prior written notice setting out such request and the Holder's wire transfer instructions. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a Business Day, the same shall instead be due on the next succeeding day which is a Business Day and, in the case of any Interest Date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of Interest due on such date. Any amount of Principal or other amounts due under the this Note or the Transaction Documents, other than Interest, which is not paid when due shall result in a late charge being incurred and payable by the Company in an amount equal to interest on such amount at the rate of five percent (5%) per annum from the date such amount was due until the same is paid in full ("**Late Charge**").

(24) CANCELLATION. After all Principal, accrued Interest and other amounts at any time owed on this Note have been paid in full, this Note shall automatically be deemed canceled, shall be surrendered to the Company for cancellation and shall not be reissued.

(25) WAIVER OF NOTICE. To the extent permitted by law, the Company hereby waives demand, notice, presentment, protest and all other demands and notices (other than the notices expressly provided for in this Note) in connection with the delivery, acceptance, default or enforcement of this Note and the Note Exchange Agreement.

(26) GOVERNING LAW. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Delaware or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Delaware.

(27) CERTAIN DEFINITIONS. For purposes of this Note, the following terms shall have the following meanings:

(i) "**Approved Stock Plan**" means any employee benefit plan which has been approved by the board of directors of the Company and the Noteholder Directors and which satisfies the stockholder approval requirements for equity compensation plans of the Eligible Market on which the Common Stock is then listed or quoted, pursuant to which the Company's securities may be issued to any employee, consultant, supplier, officer or director for services provided to the Company.

(ii) "**Bloomberg**" means Bloomberg Financial Markets.

(iii) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(iv) "**Change of Control**" means any Fundamental Transaction other than (A) a consolidation or merger with or into another Person in which the beneficial owners of the Company's then outstanding voting securities immediately prior to such transaction beneficially own securities representing fifty percent (50%) or more of the aggregate voting power of then outstanding voting securities of the resulting or acquiring corporation (or any parent thereof), or their equivalent if other than a corporation, in such transaction, or (B) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company.

(v) "**Closing Bid Price**" and "**Closing Sale Price**" mean, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotations Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 23. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(vi) "**Common Stock**" means the shares of the Company's common stock, par value $0.01 per share, and any other securities of the Company which may be issued or issuable with respect to, in exchange for, or in substitution of, such shares of common stock (including without limitation, by way of recapitalization, reclassification, reorganization, merger or otherwise).

(vii) "**Common Stock Deemed Outstanding**" means, at any given time, the number of shares of Common Stock actually outstanding at such time, plus the number of shares of Common Stock deemed to be outstanding pursuant to Sections 7(a)(i) and 7(a)(ii) hereof regardless of whether the Options or Convertible Securities are actually exercisable at such time, but excluding any Common Stock owned or held by or for the account of the Company or issuable upon conversion of the Notes.

(viii) "**Competitor**" means any company, however organized, conducting business anywhere in the world that is directly competitive with the business of the Company.

(ix) "**Contingent Obligation**" means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto.

(x) "**Continuing Directors**" means, as of any date of determination, any member of the Board of Directors who (i) was a member of such Board of Directors on the date of this Note or (ii) becomes a member of such Board of Directors subsequent to that date and was appointed, nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such appointment, nomination or election.

(xi) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock.

(xii) "**Eligible Market**" means The New York Stock Exchange, Inc., the American Stock Exchange or the Nasdaq Global Market.

(xiii) "**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

(xiv) "**Fundamental Transaction**" means (1) that the Company shall, directly or indirectly, in one or more related transactions, (a) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person or Subsidiary of another Person, or (b) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (c) be the subject of a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (d) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person or parent of such other Person acquires more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), (2) any time the Company's Continuing Directors do not constitute a majority of the Company's board of directors (or, if applicable, a Successor Entity"), or (3) a Termination of Trading.

(xv) "**GAAP**" means United States generally accepted accounting principles, consistently applied.

(xvi) "**Illiquid Consideration**" means any non-cash consideration issuable upon conversion of the Notes following a Fundamental Transaction that does not have a readily-ascertainable market value.

(xvii) "**Indebtedness**" of any Person means, without duplication (a) all indebtedness for borrowed money, (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services including, without limitation, "capital leases" in accordance with GAAP (other than trade payables entered into in the ordinary course of business), (c) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses, (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (f) all monetary obligations under any leasing or similar arrangement which, in connection with GAAP, consistently applied for the periods covered thereby, is classified as a capital lease, (g) any amount raised by acceptance under any acceptance credit facility; (h) receivables sold or discounted (other than within the framework of factoring, securitization or similar transaction where recourse is only to such receivables or proceeds); (i) any derivative transaction; (j) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution (excluding commercial letters of credit issued in the ordinary course of business); (k) all indebtedness referred to in clauses (a) through (j) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by any Person, even though the Person which owns such assets or property has not assumed or become liable for the payment of such indebtedness, and (l) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (k) above.

(xviii) "**Interest Rate**" means eight percent (8%) per annum, provided, however, that upon an Event of Default the Interest Rate shall automatically increase to twelve percent (12%) per annum.

(xix) "**Material Subsidiary**" means (a) such Subsidiaries identified as Material Subsidiaries in Schedule 3.3 of the Subscription Agreement or (b) any "Significant Subsidiary," existing from time to time, as such term is defined in Rule 1-02 of Regulation S-X of the Securities Act.

(xx) "**Merger Agreement Date**" means [INSERT date].

(xxi) "**Note Exchange Agreement**" means that certain note exchange agreement dated as of the Merger Agreement Date by and among the Company and the holders of the Old Notes, pursuant to which the Company is issuing the Notes in like principal amount in exchange for the Old Notes.

(xxii) "**Note Purchase Agreement**" means the agreement dated May 5, 2006 by and among the Company and the purchasers named therein relating to the issuance of an aggregate principal amount of $● Old Notes.

(xxiii) "**Old Notes**" means the Company's 8% Subordinated Secured Convertible Notes issued by the Company pursuant to the Note Purchase Agreement dated May 5, 2006 by and among the Company and the purchasers named therein.

(xxiv) "**Options**" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

(xxv) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(xxvi) "**Principal Market**" means the principal stock exchange or trading market for the Common Stock, if any.

(xxvii) "**Reclassification**" means any reclassification or change of shares of Common Stock issuable upon conversion of the Notes (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination).

(xxviii) "**Required Holders**" means the holders of Notes representing at least two-thirds of the aggregate Principal amount of the Notes then outstanding.

(xxix) "**Rule 144(k)**" means Rule 144(k) promulgated under the Securities Act and any successor provision thereto.

(xxx) "**SEC**" means the United States Securities and Exchange Commission.

(xxxi) "**Securities Act**" means the Securities Act of 1933, as amended.

(xxxii) "**Significant Transaction**" means any Fundamental Transaction or other corporate transaction, or series of transactions, (including but not limited to, any acquisition, disposition, merger, license or collaboration, joint venture, financing or securities offering) that would result in either (x) the issuance of Common Stock and/or Convertible Securities that would exceed 40% of the Common Stock outstanding prior to the transaction or (y) the payment or receipt of cash or other consideration of in excess of $25 million, unless such transaction has been approved by the Required Holders.

(xxxiii) "**Subsidiary**" means with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of equity entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees or other governing body thereof is at the time owned or controlled by such Person (regardless of whether such equity is owned directly or through one or more other Subsidiaries of such Person or a combination thereof).

(xxxiv) "**Successor Entity**" means the Person, which may be the Company, formed by, resulting from or surviving any Fundamental Transaction or the person with which such Fundamental Transaction shall have been made. In the vent that the Person resulting from or surviving any Fundamental Transaction is a Subsidiary, Successor Entity shall be the parent of such Subsidiary.

(xxxv) "**Termination of Trading**" shall be deemed to have occurred of the shares of Common Stock are not listed on the AMEX nor approved for trading on the Nasdaq Global Market or any other U.S. securities exchange or another established over-the-counter trading market in the United States.

(xxxvi) "**Trading Day**" means any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded; provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(xxxvii) "**Transaction Documents**" means the Note, Note Exchange Agreement, Registration Rights Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder or thereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed as of the Issuance Date set out above.

PHARMATHENE, INC.

By: _____

Name:
Title:

EXHIBIT I

PHARMATHENE, INC..
CONVERSION NOTICE

Reference is made to the Convertible Note (the "**Note**") issued to the undersigned by PharmAthene, Inc.. (the "**Company**"). In accordance with and pursuant to the Note, the undersigned hereby elects to convert the Conversion Amount (as defined in the Note) of the Note indicated below into shares of Common Stock par value $0.01 per share (the "**Common Stock**") of the Company, as of the date specified below.

Date of Conversion: _____

Aggregate Conversion Amount to be converted: _____

Please confirm the following information:

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

Please issue the Common Stock into which the Note is being converted in the following name and to the following address:

Issue to: _____

_____

_____

Facsimile Number: _____

Authorization: _____

By: _____

Title: _____

Dated: _____

Account Number: _____
(if electronic book entry transfer)

Transaction Code Number: _____
(if electronic book entry transfer)

FORM OF

REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**") is entered into as of _____ ___, 2006, by and between Healthcare Acquisition Corp., a Delaware corporation (the "**Company**"), and the investors signatory hereto (the "**Investors**"), who are also stockholders of PharmAthene, Inc., a Delaware corporation ("**PAI**").

WHEREAS, the Company and the Investors have entered into a certain Merger Agreement, dated as of January 19, 2007 (the "**Merger Agreement**"), pursuant to which the Company will merge its wholly-owned subsidiary into PAI; and

WHEREAS, the Company wishes to grant the Investors certain registration rights in connection with the shares of common stock of the Company they will acquire as a result of the Merger Agreement and the transactions contemplated thereby.

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

1. Certain Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Merger Agreement. As used in this Agreement, the following terms shall have the following meanings:

(a) "**Effective Date**" shall mean, with respect to the Registration Statement, the date on which the Registration Statement shall have been declared effective by the SEC.

(b) "**Effectiveness Period**" shall mean the period from the Closing Date until the date that is the fifth year anniversary of the Closing Date.

(c) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended, together with all rules and regulations promulgated thereunder.

(d) "**Holders**" means the Investors or any of their respective affiliates or permitted transferees to the extent any of them are permitted to hold Registrable Securities, other than those purchasing Registrable Securities in a market transaction.

(e) "**Prospectus**" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 424(b) promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

(f) "**Registrable Securities**" shall mean the shares of common stock of the Company held or hereafter acquired by the Holders, including such shares received as a result of the transactions contemplated by the Merger Agreement or in respect of the 8% Convertible Notes, together with any securities issued or issuable upon any stock split, dividend or other distribution, adjustment, recapitalization or similar event with respect to the foregoing, but excluding (i) any such shares sold under any other effective Registration Statement, or (ii) any such shares sold pursuant to Rule 144 under the Securities Act.

(g) "**Registration Statement**" means any registration statement required to be filed under this Agreement, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

(h) "**SEC**" means the U.S. Securities and Exchange Commission.

(i) "**Securities Act**" means the Securities Act of 1933, as amended, together with all rules and regulations promulgated thereunder.

2. Registration.

(a) Mandatory Registration. Within sixty (60) days after the Closing Date, the Company shall cause to be prepared and filed with the SEC a Registration Statement providing for the resale of all Registrable Securities then outstanding and all Registrable Securities issuable in respect of the 8% Convertible Notes for an offering to be made by the Holders on a continuous basis pursuant to Rule 415. Such Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form in accordance herewith). The Company shall cause such Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof. The Company shall keep such Registration Statement continuously effective under the Securities Act until the date when all Registrable Securities covered by such Registration Statement have been sold.

(b) Demand Registration. At any time following the date that is 180 days following the Closing Date but prior to the expiration of the Effectiveness Period, if the Company shall be requested (a "**Registration Request**") by Holders holding at least a majority of the then outstanding Registrable Securities to effect the registration under the Securities Act of Registrable Securities, then the Company shall (i) within ten (10) days of the receipt of such Registration Request, give written notice of such request to all Holders describing the terms of such registration and, if applicable, the underwriting and (ii) as soon as practicable cause to be prepared and filed with the SEC a Registration Statement providing for the resale of all Registrable Securities which Holders request to be registered. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form in accordance herewith). The Company shall cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof. The Company shall keep the Registration Statement continuously effective under the Securities Act until the date when all Registrable Securities covered by such Registration Statement have been sold. The Company shall not be obligated to file and cause to become effective more than two (2) Registration Statements pursuant to this Section 2(b). A Registration Statement shall not be counted for purposes of the foregoing until such time as such Registrations Statement has been declared effective by the Commission and all of the Registrable Securities offered pursuant to such Registration Statement are sold thereunder upon the price and terms offered.

(c) Each Holder will furnish to the Company in writing the information specified in Item 507 and/or 508 of Regulation S-K, as applicable, of the Securities Act for use in connection with any Registration Statement or prospectus or preliminary prospectus included therein. Each Holder agrees to promptly furnish additional information required to be disclosed in order to make the information previously furnished to the Company by such Holder not materially misleading.

(d) The Company shall notify each Holder in writing promptly (and in any event within one business day) after receiving notification from the SEC that a Registration Statement has been declared effective.

(e) Any Registration Statement required hereunder shall contain (except if otherwise directed by the Holders of at least two-thirds of the Registrable Securities included in such Registration Statement) the "Plan of Distribution" attached hereto as Annex A.

3. Registration Procedures. In connection with the Company's registration obligations hereunder, the Company shall:

(a) (i) prepare and file with the SEC such amendments, including post-effective amendments, to the Registration Statement as may be necessary to keep the Registration Statement continuously effective as to the Registrable Securities until the date when all Registrable Securities covered by such Registration Statement have been sold; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; and (iii) respond as promptly as reasonably possible to any comments received from the SEC with respect to the Registration Statement or any amendment thereto and as promptly as reasonably possible provide each Holder copies of all correspondence from and to the SEC relating to the Registration Statement.

(b) Notify each Holder as promptly as reasonably possible, and confirm such notice in writing no later than one (1) trading day thereafter, of any of the following events: (i) the SEC notifies the Company whether there will be a "review" of the Registration Statement; (ii) the SEC comments in writing on the Registration Statement (in which case the Company shall deliver to each Holder a copy of such comments and of all written responses thereto); (iii) the SEC or any other Federal or state governmental authority in writing requests any amendment or supplement to the Registration Statement or Prospectus or requests additional information related thereto; (iv) if the SEC issues any stop order suspending the effectiveness of the Registration Statement or initiates any action, claim, suit, investigation or proceeding (a "**Proceeding**") for that purpose; (v) the Company receives notice in writing of any suspension of the qualification or exemption from qualification of any Registrable Securities for sale in any jurisdiction, or the initiation or threat of any Proceeding for such purpose; or (vi) the financial statements included in the Registration Statement become ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference is untrue in any material respect or any revision to the Registration Statement, Prospectus or other document is required so that it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) Use its reasonable best efforts to avoid the issuance of or, if issued, obtain the withdrawal of: (i) any order suspending the effectiveness of the Registration Statement or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(d) Promptly deliver to each Holder, without charge, such reasonable number of copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Holder may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by the Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(e) (i) In the time and manner required by the American Stock Exchange and any other market on which the Registrable Securities are traded (the "**Principal Market**"), prepare and file with the Principal Market an additional shares listing application covering all of the Registrable Securities and a notification form regarding the change in the number of the Company's outstanding Shares; (ii) take all steps necessary to cause such Registrable Securities to be approved for listing on the Principal Market as soon as possible thereafter; (iii) provide to each Holder notice of such listing; and (iv) maintain the listing of such Registrable Securities on the Principal Market.

(f) Prior to any public offering of Registrable Securities, register or qualify or cooperate with the Holders in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or "blue sky" laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective until the date when all Registrable Securities covered by such Registration Statement have been sold and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; *provided*, *however*, that the Company shall not be required for any such purpose to: (i) qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not be otherwise required to qualify but for the requirements of this Section (3)(f), or (ii) subject itself to taxation.

(g) Upon the occurrence of any event described in Section (3)(b)(vi) above, as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that the Company may suspend sales pursuant to the Registration Statement for a period of up to sixty (60) days (unless the Holders of at least two-thirds of the Registrable Securities consent in writing to a longer delay of up to an additional thirty (30) days) no more than once in any twelve-month period if the Company furnishes to the Holders a certificate signed by the Company's Chief Executive Officer stating that in the good faith judgment of the Company's Board of Directors: (i) the offering could reasonably be expected to materially interfere with an acquisition, corporate reorganization or other material transaction then under consideration by the Company or (ii) there is some other material development relating to the operations or condition (financial or other) of the Company that has not been disclosed to the general public and as to which it is in the Company's best interests not to disclose; *provided further, however,* that the Company may not so suspend sales more than once in any calendar year without the written consent of the Holders of at least two-thirds of the Registrable Securities.

(h) Comply with all applicable rules and regulations of the SEC and the Principal Market with respect to the Company's obligations hereunder.

4. Underwritten Offerings.

(a) At the request (an "**Underwriting Request**") of the Holders of at least two-thirds of the then outstanding Registrable Securities (the "**Requesting Stockholders**"), the distribution of the Registrable Securities covered by a Registration Statement filed or to be filed pursuant to Sections 2(a) or (b) hereof, shall be effected by means of an underwriting.

(b) In the event of an Underwriting Request, the Company, together with all Holders proposing to distribute their securities through such underwriting (the "**Participating Stockholders**"), shall enter into an underwriting agreement in customary form with the managing underwriter(s) selected for such underwriting by the Requesting Stockholders, which underwriter(s) shall be reasonably acceptable to the Company; provided, however, that no Holder shall be required to make any representations or warranties concerning the Company or its business, properties, prospects, financial condition or related matters. Notwithstanding any other provision of this Section 4, if the managing underwriter(s) advises the Company and the Participating Stockholders in writing that because the number of shares requested by the Participating Stockholders to be included in the registration exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to the Requesting Stockholders or that marketing factors require a limitation of the number of shares to be underwritten on behalf of the Participating Stockholders (the "**Underwritten Registration Cutback**"), and such Underwritten Registration Cutback results in less than all of the Registrable Securities of the Participating Stockholders that are requested to be included in such registration to actually be included in such registration, then the Company will include in such registration, to the extent of the number which the Company is so advised can be sold in (or during the time of) such offering without such interference or affect on the price or sale, such number of Registrable Securities shared pro rata among all of the Participating Stockholders based on the total number of Registrable Securities held by each such Participating Stockholder.

(c) In the event of an Underwriting Request, the Company shall

(i) cooperate with the Participating Stockholders, the underwriters participating in the offering and their counsel in any due diligence investigation reasonably requested by the Participating Stockholders or the underwriters in connection therewith, and participate, to the extent reasonably requested by the Participating Stockholders and the underwriter for the offering, in efforts to sell the Registrable Securities under the offering (including, without limitation, participating in "roadshow" meetings with prospective investors) that would be customary for underwritten primary offerings of a comparable amount of equity securities by the Company;

(ii) cooperate, to the extent reasonably requested, with each underwriter participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the Principal Market;

(iii) afford the Requesting Stockholders with the opportunity to participate in the drafting of the registration statement and the documentation relating thereto;

(iv) furnish, on the date on which such Registrable Securities are sold to the underwriter, (A) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (B) a "comfort" letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters; and

(v) take all other steps reasonably necessary to effect the registration of the Registrable Securities contemplated hereby.

5. Registration Expenses. The Company shall pay all fees and expenses incident to the performance of or compliance with this Agreement by the Company, including without limitation: (a) all registration and filing fees and expenses, including without limitation those related to filings with the SEC, the Principal Market and in connection with applicable state securities or "Blue Sky" laws, (b) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing copies of Prospectuses reasonably requested by a Holder), (c) messenger, telephone and delivery expenses, (d) fees and disbursements of counsel for the Company, and (e) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. The Company shall also pay the reasonable fees and expenses of one counsel to the Holders (selected by the Holders of at least two-thirds of the Registrable Shares to be registered on such applicable Registration Statement). Notwithstanding the foregoing, each Holder shall pay any and all costs, fees, discounts or commissions attributable to the sale of its respective Registrable Securities.

6. Indemnification.

(a) Indemnification by the Company. In the event of a registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will indemnify and hold harmless each of the Holders, and their respective officers, directors and each other Person, if any, who controls or is an affiliate of such Holder within the meaning of the Securities Act, against any losses, claims, damages or liabilities (collectively, "**Losses**"), to which such Holder, or such Persons may become subject under the Securities Act or otherwise, insofar as such Losses arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Holder, and each such Person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such Losses; *provided*, *however*, that the Company will not be liable in any such case if and to the extent that any such Losses arise out of or are based upon: (i) an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of such Holder or any such Person in writing specifically for use in any such document and specifically relating to such Holder, (ii) the failure of a Holder to deliver a Prospectus, to the extent that such Holder was required to do so under applicable securities laws, or (iii) in the case of an occurrence of an event of the type specified in Section (3)(b) above, the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 7 below.

(b) Indemnification by Holders. In the event of a registration of the Registrable Securities under the Securities Act pursuant to this Agreement, each Holder will severally, but not jointly, indemnify and hold harmless the Company, and its officers, directors and each other Person, if any, who controls the Company within the meaning of the Securities Act, against all Losses to which the Company or such Persons may become subject under the Securities Act or otherwise, insofar as such Losses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact in the Registration Statement under which such Registrable Securities were registered under the Securities Act pursuant to this Agreement, any preliminary Prospectus or final Prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such Person for any reasonable legal or other expenses incurred by them in connection with investigating or defending any such Losses; *provided*, *however*, that a Holder will be liable in any such case if and only to the extent that any such Losses arise out of or are based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing to the Company by or on behalf of such Holder specifically for use in any such document and specifically relating to such Holder. In addition, the foregoing shall not inure to the benefit of a Holder (ii) if such Holder fails to deliver a Prospectus, to the extent that such Holder was required to do so under applicable securities laws, or (iii) in the case of an occurrence of an event of the type specified in Section (3)(b) above, by reason of the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 7 below.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "**Indemnified Party**"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "**Indemnifying Party**") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof, provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that such failure shall have prejudiced the Indemnifying Party. An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (i) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (ii) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (iii) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party; *provided*, *however*, that in the event that the Indemnifying Party shall be required to pay the fees and expenses of separate counsel, the Indemnifying Party shall only be required to pay the fees and expenses of one separate counsel for such Indemnified Party or Parties. The Indemnifying Party shall not be liable for any settlement of any such Proceeding affected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding. All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten trading days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 6(a) or (b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or related to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section 6 was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(e) Notwithstanding the provision of this Section 6, no Holder shall be required to pay indemnification or to contribute, in the aggregate, any amount in excess of the amount of proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding.

(f) The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

7. Dispositions. Each Holder agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement. Each Holder further agrees that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 3(b), such Holder will discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(g), or until it is advised in writing (the "**Advice**") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

8. Piggy-Back Registrations. If at any time during the Effectiveness Period, the Company shall determine to prepare and file with the SEC a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to the each Holder written notice of such determination and if, within fifteen (15) days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such Holder requests to be registered. Notwithstanding the foregoing, if the Company's proposed registration of equity securities hereunder is, in whole or in part, an underwritten public offering, and the managing underwriter of such proposed registration determines and advises in writing that the inclusion of all Registrable Securities proposed to be included in the underwritten public offering, together with any other issued and outstanding shares of the Company's common stock proposed to be included therein (such other shares hereinafter collectively referred to as the "Other Shares"), would interfere with the successful marketing of the Company's securities, then the total number of such securities proposed to be included in such underwritten public offering shall be reduced, (i) first by the shares requested to be included in such registration by the holders of Other Shares, and (ii) second, if necessary, (A) one-half (½) by the securities proposed to be issued by the Company, and (B) one-half (½) by the Registrable Securities proposed to be included in such registration by the Holders, on a pro rata basis, based upon the number of Registrable Securities then held by each such Holder. The shares of the Company's common stock that are excluded from the underwritten public offering pursuant to the preceding sentence shall be withheld from the market by the holders thereof for a period, not to exceed 90 days from the closing of such underwritten public offering, that the managing underwriter reasonably determines as necessary in order to effect such underwritten public offering.

9. Reports Under Exchange Act. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration, the Company shall:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the date hereof and so long as the Company is subject to the periodic reporting requirements under Sections 13 or 15(d) of the Exchange Act;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the Commission which permits the selling of any such securities without registration or pursuant to such form.

10. Mergers. The Company shall not, directly or indirectly, enter into any merger, consolidation or reorganization in which the Company shall not be the surviving corporation unless the proposed surviving corporation shall, prior to such merger, consolidation or reorganization, agree in writing to assume the obligations of the Company under this Agreement, and for that purpose references hereunder to "Registrable Securities" shall be deemed to be references to the securities which the Holders would be entitled to receive in exchange for Registrable Securities under any such merger, consolidation or reorganization, provided, however, that the provisions of this Agreement shall not apply in the event of any merger, consolidation or reorganization in which the Company is not the surviving corporation if the Holders are entitled to receive in exchange therefor (i) cash or (ii) securities of the acquiring corporation which may be immediately sold to the public pursuant to an effective registration statement under the Securities Act or pursuant to an exemption therefrom which permits sales without limitation as to volume or the manner of sale on a nationally recognized exchange in the United States or on the Principal Market.

11. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York, without giving effect to principles of conflicts of law or choice of law that would cause the laws of any other jurisdiction to apply.

(b) Transfer of Registration Rights. Any Holder that is a partnership, corporation or limited liability company may transfer or assign its registration rights provided pursuant to this Agreement with respect to any Registrable Securities to any partner, shareholder, member or affiliate of such Holder; provided, however, that (ii) such Holder shall give the Company written notice prior to the time of such transfer or assignment stating the name and address of the transferee and identifying the Registrable Securities with respect to which the rights under this Agreement are being transferred and (ii) such transferee or assignee agrees in writing, the form and substance of which shall be reasonably satisfactory to the Company, to be bound as a Holder by the provisions of this Agreement, following which any such transferee or assignee shall be deemed a "Holder" pursuant to this Agreement.

(c) Amendment and Waiver. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only upon the written consent of both the Company and the Holders of not less than two-thirds of the then outstanding Registrable Securities.

(d) Entire Agreement. This Agreement and the Merger Agreement constitute the entire agreement between the parties relative to the specific subject matter hereof. Any previous agreement among the parties relative to the specific subject matter hereof is superseded by this Agreement.

(e) Third Party Beneficiaries. There shall be no third party beneficiaries or intended beneficiaries of this Agreements.

(f) Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given in accordance with the Merger Agreement.

(g) Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

(h) Counterparts. This Agreement may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile or other electronic transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature page were an original thereof.

(i) Successors and Assigns. The provisions hereof shall inure to the benefit of, and be binding upon, the successors and assigns of the parties hereto.

(j) Independent Nature of Holders' Obligations and Rights. The obligations of each Holder hereunder are several and not joint with the obligations of any other Holder hereunder, and no Holder shall be responsible in any way for the performance of the obligations of any other Holder hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Holder pursuant hereto or thereto, shall be deemed to constitute the Holders as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Holders are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Holder shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

(k) Remedies. In the event of a breach by the Company or by a Holder, of any of their respective obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(l) Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date and year first set forth above.

COMPANY:

HEALTHCARE ACQUISITION CORP.

By: _____

Name: Matthew P. Kinley
Title: President

INVESTORS:

[INSERT SIGNATURE BLOCK OF INVESTORS]

ANNEX A

Plan of Distribution

The shares covered by this prospectus may be offered and sold from time to time by the selling stockholders. The term "selling stockholder" includes pledgees, donees, transferees or other successors in interest selling shares received after the date of this prospectus from each selling stockholder as a pledge, gift, partnership distribution or other non-sale related transfer. The number of shares beneficially owned by a selling stockholder will decrease as and when it effects any such transfers. The plan of distribution for the selling stockholders' shares sold hereunder will otherwise remain unchanged, except that the transferees, pledgees, donees or other successors will be selling stockholders hereunder. To the extent required, we may amend and supplement this prospectus from time to time to describe a specific plan of distribution.

The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The selling stockholders may make these sales at prices and under terms then prevailing or at prices related to the then current market price. The selling stockholders may also make sales in negotiated transactions. The selling stockholders may offer their shares from time to time pursuant to one or more of the following methods:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- one or more block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- public or privately negotiated transactions;
- on the American Stock Exchange (or through the facilities of any national securities exchange or U.S. inter-dealer quotation system of a registered national securities association, on which the shares are then listed, admitted to unlisted trading privileges or included for quotation);
- through underwriters, brokers or dealers (who may act as agents or principals) or directly to one or more purchasers;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

In connection with distributions of the shares or otherwise, the selling stockholders may:

- enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the shares in the course of hedging the positions they assume;
- sell the shares short and redeliver the shares to close out such short positions;
- enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to them of shares offered by this prospectus, which they may in turn resell; and
- pledge shares to a broker-dealer or other financial institution, which, upon a default, they may in turn resell.

In addition to the foregoing methods, the selling stockholders may offer their shares from time to time in transactions involving principals or brokers not otherwise contemplated above, in a combination of such methods or described above or any other lawful methods. The selling stockholders may also transfer, donate or assign their shares to lenders, family members and others and each of such persons will be deemed to be a selling stockholder for purposes of this prospectus. The selling stockholders or their successors in interest may from time to time pledge or grant a security interest in some or all of the shares of common stock, and if the selling stockholders default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from to time under this prospectus; provided however in the event of a pledge or then default on a secured obligation by the selling stockholder, in order for the shares to be sold under this registration statement, unless permitted by law, we must distribute a prospectus supplement and/or amendment to this registration statement amending the list of selling stockholders to include the pledgee, secured party or other successors in interest of the selling stockholder under this prospectus.

The selling stockholders may also sell their shares pursuant to Rule 144 under the Securities Act, which permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the availability of certain current public information concerning the issuer, the resale occurring following the required holding period under Rule 144 and the number of shares being sold during any three-month period not exceeding certain limitations.

Sales through brokers may be made by any method of trading authorized by any stock exchange or market on which the shares may be listed or quoted, including block trading in negotiated transactions. Without limiting the foregoing, such brokers may act as dealers by purchasing any or all of the shares covered by this prospectus, either as agents for others or as principals for their own accounts, and reselling such shares pursuant to this prospectus. The selling stockholders may effect such transactions directly, or indirectly through underwriters, broker-dealers or agents acting on their behalf. In effecting sales, broker-dealers or agents engaged by the selling stockholders may arrange for other broker-dealers to participate. Broker-dealers or agents may receive commissions, discounts or concessions from the selling stockholders, in amounts to be negotiated immediately prior to the sale (which compensation as to a particular broker-dealer might be in excess of customary commissions for routine market transactions).

In offering the shares covered by this prospectus, the selling stockholders, and any broker-dealers and any other participating broker-dealers who execute sales for the selling stockholders, may be deemed to be “underwriters” within the meaning of the Securities Act in connection with these sales. Any profits realized by the selling stockholders and the compensation of such broker-dealers may be deemed to be underwriting discounts and commissions.

The Company is required to pay all fees and expenses incident to the registration of the shares.

The Company has agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Form of Lock-Up Agreement

_____ __, 2007

Healthcare Acquisition Corporation
2116 Financial Center
666 Walnut Street
Des Moines, Iowa 50309

Re: Healthcare Acquisition Corp./PharmAthene, Inc. Merger

Ladies and Gentlemen:

This letter agreement (this "Agreement") relates to the proposed merger (the "Merger") of PAI Acquisition Corp. (the "Merger Sub"), a Delaware corporation and a wholly-owned subsidiary of Healthcare Acquisition Corporation (the "Parent"), a Delaware corporation, with PharmAthene, Inc. (the "Company"), a Delaware corporation. The Merger is governed by the certain Agreement and Plan of Merger, dated as of January __, 2007, by and among Parent, Merger Sub and the Company (the "Merger Agreement") and capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Merger Agreement.

In order to induce Parent and Merger Sub to consummate the Merger, the undersigned hereby agrees that, as of the date hereof until expiration of the Lock-Up Period (as defined below), the undersigned: (a) will not, directly or indirectly, offer, sell, agree to offer or sell, solicit offers to purchase, grant any call option or purchase any put option with respect to, pledge, borrow or otherwise dispose of any Relevant Security (as defined below) and (b) will not establish or increase any "put equivalent position" or liquidate or decrease any "call equivalent position" with respect to any Relevant Security (in each case within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder) or otherwise enter into any swap, derivative or other transaction or arrangement that transfers to another, in whole or in part, any economic consequence of ownership of a Relevant Security, whether or not such transaction is to be settled by delivery of Relevant Securities, other securities, cash or other consideration, except in accordance with the following schedule: fifty percent (50%) of the Relevant Securities shall be released from this Agreement on the date that is six (6) months from the Closing Date and the remaining fifty percent (50%) of the Relevant Securities shall be released from this Agreement on the date that is twelve (12) months from the Closing Date (the "Lock-Up Period"). As used herein, "Relevant Security" means any common stock or 8% promissory notes of the Parent (or common stock issuable upon conversion of such notes or as a dividends thereon) received by or issuable to the undersigned pursuant to the Merger Agreement.

The undersigned hereby authorizes Parent during the Lock-Up Period to cause any transfer agent for the Relevant Securities to decline to transfer and to note stop transfer restrictions on the stock register and other records relating to Relevant Securities for which the undersigned is the record holder and, in the case of Relevant Securities for which the undersigned is the beneficial but not record holder, agrees during the Lock-Up Period to cause the record holder to authorize the Parent to cause any transfer agent for the Relevant Securities to decline to transfer and to note stop transfer restrictions on the stock register and other records relating to such Relevant Securities in accordance with this Agreement.

The restrictions set forth in the immediately preceding paragraph shall not apply to:

(1) if the undersigned is a natural person, any transfers made by the undersigned (a) as a bona fide gift to any member of the immediate family (as defined below) of the undersigned or to a trust the direct or indirect beneficiaries of which are exclusively the undersigned or members of the undersigned's immediate family, (b) by will or intestate succession upon the death of the undersigned or (c) as a bona fide gift to a charity or educational institution,

(2) if the undersigned is a corporation, partnership, limited liability company or other business entity, any transfers to any shareholder, partner or member of, or owner of a similar equity interest in, the undersigned, as the case may be, if, in any such case, such transfer is not for value, and

(3) if the undersigned is a corporation, partnership, limited liability company or other business entity, any transfer made by the undersigned (a) in connection with the sale or other bona fide transfer in a single transaction of all or substantially all of the undersigned's capital stock, partnership interests, membership interests or other similar equity interests, as the case may be, or all or substantially all of the undersigned's assets, in any such case not undertaken for the purpose of avoiding the restrictions imposed by this agreement or (b) to another corporation, partnership, limited liability company or other business entity so long as the transferee is an affiliate (as defined below) of the undersigned and such transfer is not for value.

provided, however, that in the case of any transfer described in clause (1), (2) or (3) above, it shall be a condition to the transfer that (A) the transferee executes and delivers to the Parent, not later than one business day prior to such transfer, a written agreement, in substantially the form of this agreement (it being understood that any references to "immediate family" in the agreement executed by such transferee shall expressly refer only to the immediate family of the undersigned and not to the immediate family of the transferee), and otherwise reasonably satisfactory in form and substance to Parent, and (B) if the undersigned is required to file a report under Section 16(a) of the Securities Exchange Act of 1934, as amended, reporting a reduction in beneficial ownership of the Relevant Securities or any securities convertible into or exercisable or exchangeable for the Relevant Securities during the Lock-Up Period, the undersigned shall include a statement in such report to the effect that, in the case of any transfer pursuant to clause (1) above, such transfer is being made as a gift or by will or intestate succession or, in the case of any transfer pursuant to clause (2) above, such transfer is being made to a shareholder, partner or member of, or owner of a similar equity interest in, the undersigned and is not a transfer for value or, in the case of any transfer pursuant to clause (3) above, such transfer is being made either (a) in connection with the sale or other bona fide transfer in a single transaction of all or substantially all of the undersigned's capital stock, partnership interests, membership interests or other similar equity interests, as the case may be, or all or substantially all of the undersigned's assets or (b) to another corporation, partnership, limited liability company or other business entity that is an affiliate of the undersigned and such transfer is not for value. For purposes of this paragraph, "immediate family" shall mean a spouse, child, grandchild or other lineal descendant (including by adoption), father, mother, brother or sister of the undersigned; and "affiliate" shall have the meaning set forth in Rule 405 under the Securities Act of 1933, as amended.

The undersigned shall not be subject to any of the foregoing restrictions in this Agreement unless and until all officers (as of immediately prior to the Effective Time), directors (as of immediately prior to the Effective Time) and former 1% or greater securityholders of the Company (calculated on a fully diluted basis immediately prior to the Effective Time) have executed similar agreements.

In the event a certain percentage of the securities held by the officers (as of immediately following the Effective Time), directors (as of immediately following the Effective Time) and/or 1% or greater securityholders of the Parent (calculated on a fully diluted basis immediately following the Effective Time), are released from the restrictions set forth in agreements similar to this Agreement (and/or any restrictions set forth in agreements executed prior to the Effective Time by such officers, directors and/or 1% or greater securityholders), the same percentage of the securities held by the undersigned shall be immediately and fully released from any remaining restrictions under this Agreement concurrently therewith. In the event that the undersigned is released early by Parent pursuant to the terms of the this paragraph, the Parent shall notify the undersigned concurrently with notification to such other released party.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Agreement and that this Agreement constitutes the legal, valid and binding obligation of the undersigned, enforceable in accordance with its terms. Upon request, the undersigned will execute any additional documents necessary in connection with enforcement hereof. Any obligations of the undersigned shall be binding upon the successors and assigns of the undersigned from the date first written above.

[Remainder of Page Intentionally Blank]

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflicts of laws principles thereof. Delivery of a signed copy of this letter by facsimile transmission shall be effective as delivery of the original hereof.

Very truly yours,

Signature for Individuals:

_____

Name:

Signature for Entities:

Name of Entity: _____

By: _____

Name:
Title:

Contact:

Stacey Jurchison
PharmAthene, Inc.
Phone: 410-571-8925
jurchisons@pharmathene.com

Matthew Kinley
Healthcare Acquisition Corp.
Phone: 515-244-5746
kinley@pappajohn.com

PHARMATHENE AND HEALTHCARE ACQUISITION CORP.
ANNOUNCE DEFINITIVE MERGER AGREEMENT

Transaction Provides PharmAthene with up to $70 Million in Cash

ANNAPOLIS, MD, January 22, 2007 - Privately-owned PharmAthene, Inc., a leading biodefense company specializing in the development and commercialization of medical countermeasures against biological and chemical terrorism, and Healthcare Acquisition Corp. (AMEX: HAQ), a publicly-traded special purpose acquisition company, announced today that they have signed a definitive merger agreement under which Annapolis-based PharmAthene will become a public company through a merger with Healthcare Acquisition Corp.

The new company will be named PharmAthene, Inc., and it is expected that its shares will trade on the American Stock Exchange upon completion of the merger. Healthcare Acquisition Corp. is expected to have up to approximately $70 million in cash at the closing before payment of expenses, which will remain in the merged company and be available to finance product development, clinical trials, research and development, and potential product and technology acquisitions and for general corporate purposes.

David P. Wright, President and Chief Executive Officer of PharmAthene, will remain President and Chief Executive Officer of the company, which will be headquartered in Annapolis, Maryland with research and development facilities in Montreal, Canada.

“A merger with HAQ provides a strong financial foundation with enhanced access to capital and will further PharmAthene’s strategy of taking a leadership position in biodefense to help meet the urgent biosecurity needs of the U.S. and its allies,” Mr. Wright said. “Our strategy emphasizes rapid product development and this transaction represents the best way to meet both our short- and long-term growth objectives.”

Mr. Wright added, “We are seeking to apply the classic defense contractor model of developing multiple government customers - Defense, Homeland Security, state and regional authorities - and then adapting our products for wider commercial use. Biodefense products should be available to all levels of government, large venues, commercial offices, hotels, hospitals and even to individual consumers, and we intend initially to develop and commercialize products for all of these markets while evaluating dual-use applications for our products within broader commercial markets.”

John Pappajohn, Chairman of Healthcare Acquisition Corp., said, “This merger combines PharmAthene’s research, development and marketing strengths with HAQ’s enhanced access to the capital markets. PharmAthene has a strong management team with a proven track record - collectively, the team has previously commercialized 30 pharmaceutical products with over $4 billion in current revenues. They are a highly focused, creative team with the ability to execute and a reputation for expanding their product markets.”

“Since its inception, PharmAthene has raised approximately $65 million in venture capital and private equity from premier healthcare investors, and been awarded government contracts that can provide up to $246 million in government funding. They currently have two best-in-class products - Valortim™ for the prevention and treatment of anthrax infection and Protexia® to prevent and treat nerve agent poisoning - each targeting high priority biodefense needs. A recently awarded $213 million contract from the Department of Defense for Protexia® validates management’s ability to execute,” Mr. Pappajohn added.

SUMMARY OF THE TRANSACTION

- Under the terms of the agreement, Healthcare Acquisition Corp. will issue 12.5 million new shares to PharmAthene’s shareholders, resulting in PharmAthene’s current shareholders owning at least 52% of the outstanding basic shares upon completion of the merger (subject to adjustment to the extent Healthcare Acquisition Corp. shareholders exercise their right to convert their Healthcare Acquisition Corp. shares into cash).
- PharmAthene holders have agreed to certain lockup provisions prohibiting the sale of any of the Healthcare Acquisition Corp. shares they receive in the merger until a minimum of six months after consummation of the merger, with only 50% of such shares released from the lockup six months after the merger, and the remaining 50% being released twelve months after the merger.
- In the event that PharmAthene enters into a contract prior to December 31, 2007 for the sale of Valortim™ with the U.S. government for more than $150,000,000 in anticipated revenue, PharmAthene’s shareholders will also be eligible for additional cash payments, not to exceed $10 million, equal to 10% of the actual collections from the sale of Valortim™.
- PharmAthene’s currently outstanding secured convertible notes will be exchanged for $12.5 million of new unsecured 8% Convertible Notes maturing in 24 months. The Convertible Notes are convertible at the option of the holder into common stock at $10.00 per share and may be redeemed by the company without penalty after 12 months.
- HAQ’s 9.4 million warrants, expiring July 2010 with an exercise price of $6.00 per share, will remain outstanding, giving the combined company potential access to an additional $56.4 million if all of the warrants are exercised.
- PharmAthene will merge with a subsidiary of Healthcare Acquisition Corp. and, following the transaction, will be a subsidiary of HealthCare Acquisition Corp; Healthcare Acquisition Corp will change its name to PharmAthene, Inc.

The merger has been approved by the Boards of Directors of both companies and by the requisite majority of PharmAthene’s shareholders and is subject to approval by Healthcare Acquisition Corp.’s shareholders, regulatory approval and other customary closing conditions. In addition, closing of the merger is also conditioned on holders of fewer than 20% of the shares of Healthcare Acquisition Corp. common stock voting against the merger and electing to convert their Healthcare Acquisition Corp. common stock into cash. As a result of the execution of this agreement, pursuant to its certificate of incorporation, Healthcare Acquisition Corp. has until August 3, 2007 to complete the transaction before it would otherwise be required to liquidate.

Bear, Stearns & Co. Inc. served as financial advisor to PharmAthene in connection with the transaction and Maxim Group served as financial advisor to Healthcare Acquisition Corp.

McCarter & English is serving as counsel to PharmAthene in the transaction and Edwards Angell Palmer & Dodge LLP is acting as counsel on behalf of members of the PharmAthene investor group. Ellenoff Grossman & Schole LLP is acting as counsel to Healthcare Acquisition Corp.

This communication is being made in respect of the proposed merger transaction involving Healthcare Acquisition Corp. (HAQ) and PharmAthene, Inc. HAQ will promptly file with the SEC a current report on Form 8-K, which will include the merger agreement and related documents. In addition, HAQ will file a proxy statement with the SEC in connection with the transaction and mail the final proxy statement to HAQ shareholders of record at the record date for the special meeting of the shareholders to be held to obtain approval of the proposed transaction and related matters. The proxy statement that HAQ plans to file with the SEC and mail to its shareholders will contain information about HAQ, PharmAthene, the proposed merger, and related matters. SHAREHOLDERS ARE URGED TO READ THE PROXY STATEMENT CAREFULLY WHEN IT IS AVAILABLE, AS IT WILL CONTAIN IMPORTANT INFORMATION THAT SHAREHOLDERS SHOULD CONSIDER BEFORE MAKING A DECISION ABOUT THE MERGER. In addition to receiving the proxy statement and proxy card by mail, shareholders will also be able to obtain the proxy statement, as well as other filings containing information about HAQ, without charge, from the SEC's website (http://www.sec.gov) or, without charge, by contacting Matthew Kinley at HAQ at (515) 244-5746. This announcement is neither a solicitation of proxy, an offer to purchase, nor a solicitation of an offer to sell shares of HAQ.

HAQ did not hold an annual meeting of its shareholders in 2006, as required under the rules and regulations of the American Stock Exchange. This was because HAQ is a specified purpose acquisition company, and, as disclosed in its prospectus, it has had no operations other than searching for and consummating a business combination. HAQ also has had limited funds available to it with which to search for and consummate a business combination, and an annual meeting would have required a diversion of these scarce funds from HAQ's search, as well as diverting the efforts of its management in their search for a target company. Any items required to be covered in HAQ's 2006 annual meeting of shareholders will be dealt with in the special meeting of HAQ's shareholders called to approve the transactions disclosed in this press release, as set forth above.

HAQ and its executive officers and directors may be deemed to be participants in the solicitation of proxies from HAQ's shareholders with respect to the matters relating to the proposed merger. PharmAthene may also be deemed a participant in such solicitation. Information regarding HAQ's executive officers and directors is available in HAQ's Annual Report on Form 10-K, for the year ended December 31, 2005, and its most recent Report on Form 10-Q for the fiscal quarter ended September 30, 2006. Information regarding any interest that PharmAthene or any of the executive officers or directors of PharmAthene may have in the transaction with HAQ will be set forth in the proxy statement that HAQ intends to file with the SEC in connection with the matters to be approved in connection with the proposed merger. Shareholders of HAQ can obtain this information by reading the proxy statement when it becomes available.

About PharmAthene, Inc.

PharmAthene, a privately-held biodefense company, was formed in 2001 to meet the critical needs of the United States by developing biodefense products. PharmAthene is dedicated to the rapid development of important and novel biotherapeutics to address biological pathogens and chemicals that may be used as weapons of bioterror. PharmAthene's lead programs include Valortim™ (being co-developed with Medarex, Inc. [NASDAQ: MEDX]) and Protexia®. For more information on PharmAthene, please visit its website at www.PharmAthene.com.

About Healthcare Acquisition Corp.

Des Moines-based Healthcare Acquisition Corp. was jointly formed by healthcare investing pioneers, John Pappajohn and Derace L. Schaffer, M.D. Healthcare Acquisition Corp. is a special purpose acquisition company focused on the healthcare industry. The Company raised $75.2 million through an IPO in July, 2005. As of September 30, 2006, the company held approximately $70 million in trust. The Company's shares trade on the American Stock Exchange, under the symbol HAQ and its warrants trade on the American Stock Exchange under the symbol HAQW.

Forward Looking Statement Disclosure

This press release contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements regarding the efficacy of potential products, the timelines for bringing such products to market and the availability of funding sources for continued development of such products. Forward-looking statements are based on management's estimates, assumptions and projections, and are subject to uncertainties, many of which are beyond the control of Healthcare Acquisition Corp. and PharmAthene. Actual results may differ materially from those anticipated in any forward-looking statement. Factors that may cause such differences include the risks that (a) , there may be regulatory or litigation obstacles to completing the merger, or shareholders of Healthcare Acquisition Corp. may not approve the merger, (b) the American Stock Exchange market may not accept the shares of the merged company for continued listing, (c, (d) potential products that appear promising to PharmAthene or any of their collaborators cannot be shown to be efficacious or safe in subsequent preclinical or clinical trials, (e) , PharmAthene or their collaborators will not obtain appropriate or necessary governmental approvals to market these or other potential products, (f) PharmAthene may not be able to obtain anticipated funding for their development projects or other needed funding, (g) PharmAthene may not be able to secure funding from anticipated government contracts and grants, and (h) PharmAthene may not be able to secure or enforce adequate legal protection, including patent protection, for their products.

More detailed information about Healthcare Acquisition Corp. and risk factors that may affect the realization of forward-looking statements, including the forward-looking statements in this press release is set forth in Healthcare Acquisition Corp.'s filings with the Securities and Exchange Commission Healthcare Acquisition Corp. urges investors and security holders to read those documents free of charge at the Commission's Web site at http://www.sec.gov. Interested parties may also obtain those documents free of charge from Healthcare Acquisition Corp. Forward-looking statements speak only as to the date they are made, and except for any obligation under the U.S. federal securities laws, Healthcare Acquisition Corp. undertakes no obligation to publicly update any forward-looking statement as a result of new information, future events or otherwise.

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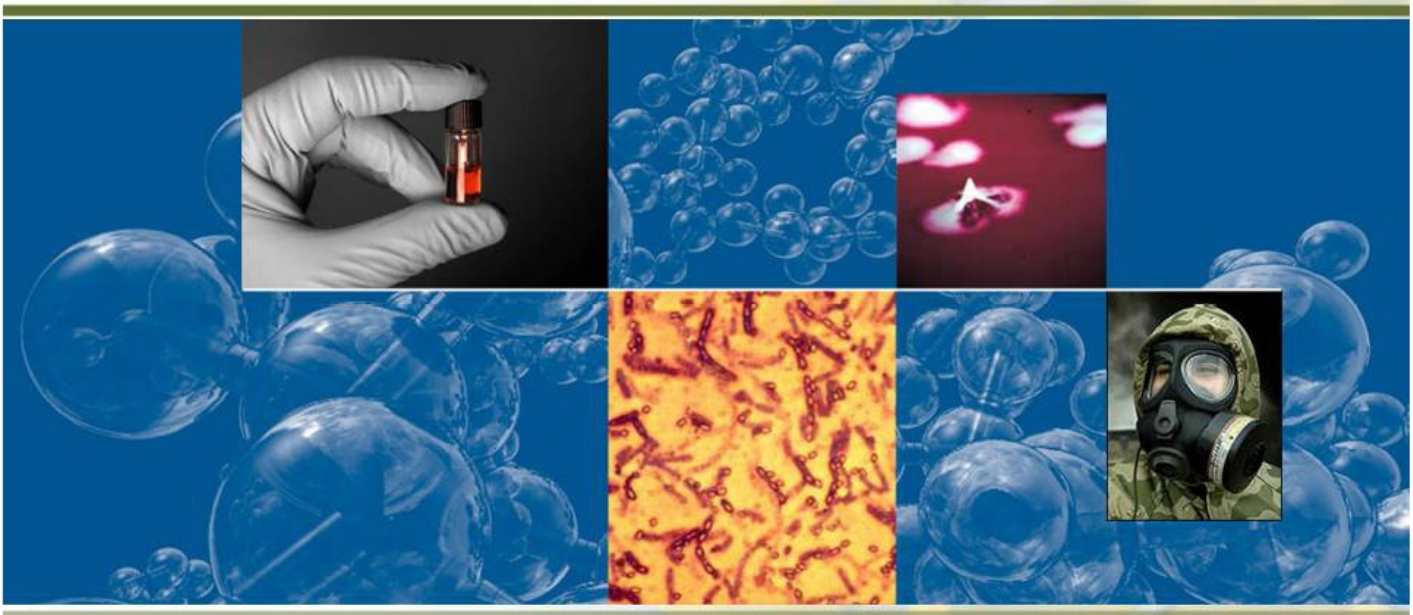
PharmAthene

Dedicated to a safer world



Proposed Merger with Healthcare Acquisition Corp.

January 2007

AMEX: HAQ

Safe Harbor Statement

PharmAthene

Except for the historical information contained herein, this presentation contains among other things, certain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Such statement may include, without limitation, statements with respect to the Company's plans, objectives, expectations and intentions and other statements identified by words such as "may", "could", "would", "should", "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions. These statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties, including those detailed in the Company's filings with the Securities and Exchange Commission. Actual results, including, without limitation, actual sales results, if any, may differ from those set forth in the forward-looking statements. These forward-looking statements involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control).

Transaction Summary

PharmAthene

Acquirer:	Healthcare Acquisition Corp (AMEX: HAQ)
Target:	PharmAthene, Inc. (PTHN)
Proposed Transaction:	HAQ to acquire 100% equity of PharmAthene
Consideration:	12.5M shares $12.5M debt
Pro Forma Ownership:	PTHN 52% HAQ 48%
Proceeds:	$68M cash remains to execute growth strategy
Timing:	Proxy filing January; expected closing mid-2007 (subject to SEC review)

Investment Highlights

PharmAthene

- PharmAthene is a leader in the biodefense industry
  - $10B industry by 2011
- Advanced product pipeline
  - Valortim™ for anthrax and Protexia® for nerve agents
- Strong management team, industry backers and sponsorship
  - David P. Wright, senior executive experience at MedImmune, Glaxo
- Near-term revenue strategy
  - Product launches anticipated 2008/2009
- Compelling transaction
  - $68M to remain with company to execute growth strategy

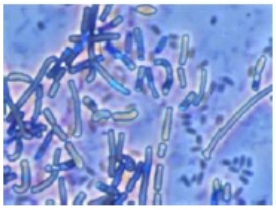
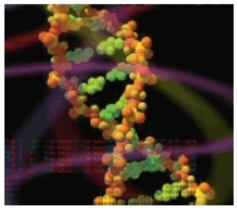


Agenda:

Compelling Investment Opportunity…

PharmAthene

- Targeting a multi-billion dollar critical market opportunity
- Industry-leading biodefense capabilities
- Two best-in-class products
- Clear growth strategy; compelling transaction


Large, Growing Biodefense Markets

PharmAthene

Civilian (DHHS, DHS)

Annually 2003 to 2006	$5B
Project BioShield to 2013	$5.6B

Military (DoD)

2006 to 2011	$9.9B

International

Percent of U.S. market	~25-50%

Targeting multi-billion dollar critical market opportunity

*Source: MedaCorp Reports *Chemical & Biological Defense Program – Oct 2005*

Biodefense Model: Advantages

PharmAthene

	Traditional Model	Biodefense Model
Preclinical development	4-6 years; >$25M	1-2 years; <$10M
Total development costs	>$500M	<$150M
Grant support	Typically <5%	Up to 100%
Approval track	Phase I, II, III Human trials	Animal rule
Commercialization procurement	Post-FDA approval	Pre-FDA approval

Significant time/cost advantage for commercialization vs. traditional model

Agenda:

Compelling Investment Opportunity

PharmAthene

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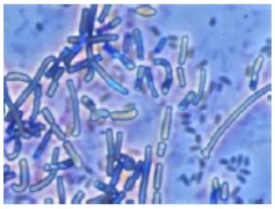
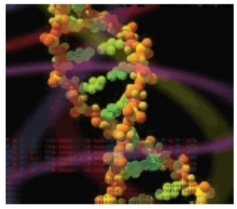




Experienced Management Team

PharmAthene

- Senior management with a proven track record
  - Experience in winning significant government contracts
  - Commercialized 30 pharma/biotech products generating >$4B in revenue
  - Reputation for creating new market opportunities
- Strong relationships with Government agencies (DHS, DHHS, DoD)
  - Instrumental in drafting legislation (BARDA)
  - Key collaborator with FDA/USAMRIID on animal model development
  - David Wright, CEO, Co-Chairman of the Alliance for Biosecurity

Team collectively developed, launched **30** pharmaceutical products

Board of Directors – Post Merger

PharmAthene

John Pappajohn, Chairman – Healthcare Acquisition Corp.

James Cavanaugh, Ph.D., Director – HealthCare Ventures, LLC

Elizabeth Czerepak, Director – Bear Stearns Health Innoventures

Joel McCleary, Director – Four Seasons Ventures, LLC

Steven St. Peter, M.D., Director – MPM Capital

Derace L. Schaffer, M.D., Director – Healthcare Acquisition Corp.

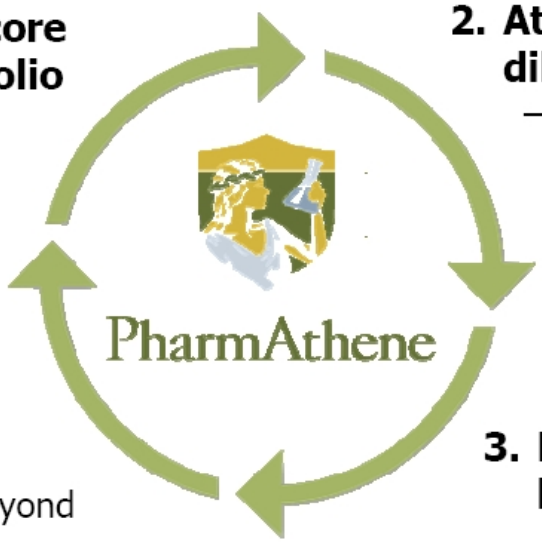
David P. Wright, Director – PharmAthene, Inc.

Participative Board with extensive congressional ties

Business Strategy Emulating Defense Model

PharmAthene

1. **Build strong core product portfolio**
   - strict criteria
2. **Attain material non-dilutive funding**
   - rapidly advance development
3. **Expand customer base/reach**
   - Gov't / corporate / private purchasers
4. **Leverage technology**
   - diversify beyond pure-play biodefense

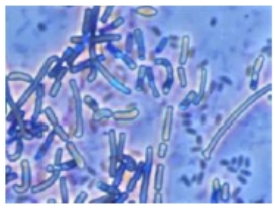
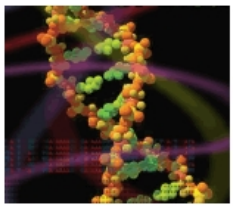


Agenda:

Compelling Investment Opportunity

PharmAthene

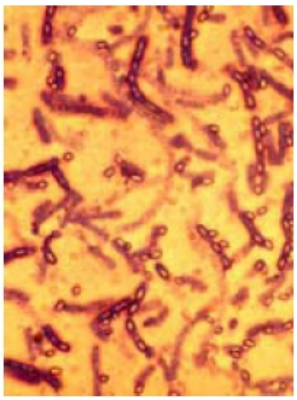
- Targeting a multi-billion dollar critical market opportunity
- Industry-leading biodefense capabilities
- Two best-in-class products
- Clear growth strategy; compelling transaction


Two Best-in-Class Products

PharmAthene

1 Valortim™
Anthrax



2 Protexia®
Nerve agent countermeasure

Anthrax – The Unmet Need

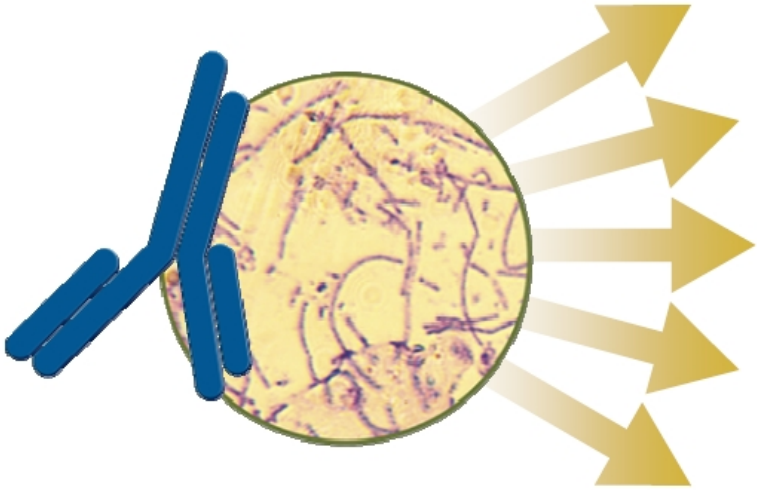
PharmAthene

- Catastrophic threat in urban setting
  - 1kg → 380,000 people infected
- Existing treatment: antibiotics – limited effectiveness
  - expect 40-50% fatality
  - genetic engineering → antibiotic resistant
- Vaccines also problematic
  - multiple doses over several weeks/months
  - inadequate for
    - first responders
    - broad civilian defense

Our Anthrax Solution: Valortim™

PharmAthene

- Fully human MAb with unique mechanism of action



Advantages

- Potent anthrax toxin neutralizing activity
- Capable of neutralizing both free and cell-bound anthrax toxin
- Unique mechanism of action same as vaccine induced immunity
- Efficacious as prophylaxis & therapy

Prophylactic and Therapeutic Studies Show Valortim™ is Highly Efficacious

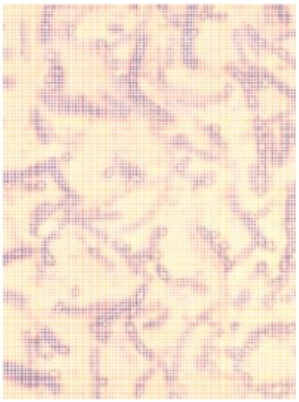
PharmAthene

Model	Animal	Time to Treatment	Survival
Prophylaxis	Rabbits	1 hr post-exposure	85%
Prophylaxis	Monkeys	1 hr post-exposure	100%
Treatment	Rabbits	24 hrs post-exposure	89%
Treatment	Rabbits	48 hrs post-exposure	42%
Control	All Above	All Above	0%

Two Best-in-Class Products

PharmAthene

1 Valortim™
Anthrax

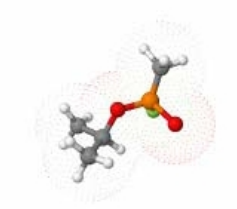


2 Protexia®
Nerve agent countermeasure

Nerve Agents – The Unmet Need

PharmAthene

- Readily available including
  - Sarin, Soman, Tabun, VX
- Rapid morbidity and mortality
- No adequate vaccine or therapy currently available
  - current standard of care – atropine, 2-PAM, diazepam



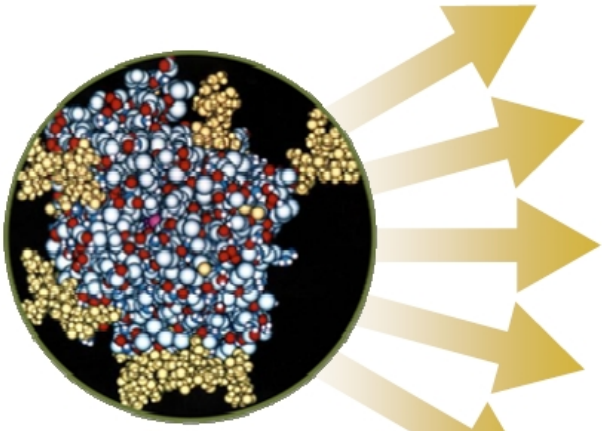
Sarin

VX

Our Nerve Agent Solution: Protexia®

PharmAthene

- Recombinant version of human BChE



Mimics natural "bioscavenger"

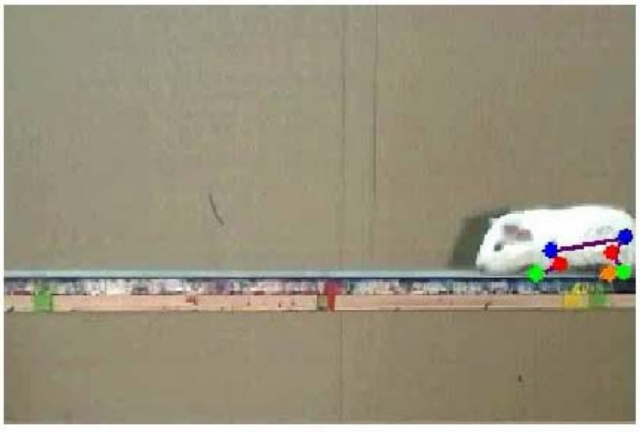
Advantages

- Protection pre-and post-exposure
- Protection against broad spectrum of nerve agents
- Superior efficacy to standard of care
- No observable neurological deficits
- Transgenic platform permits significant improvement in production yield

Conventional Treatment Does Not Prevent Neurological Toxicity

PharmAthene

Conventional Treatment

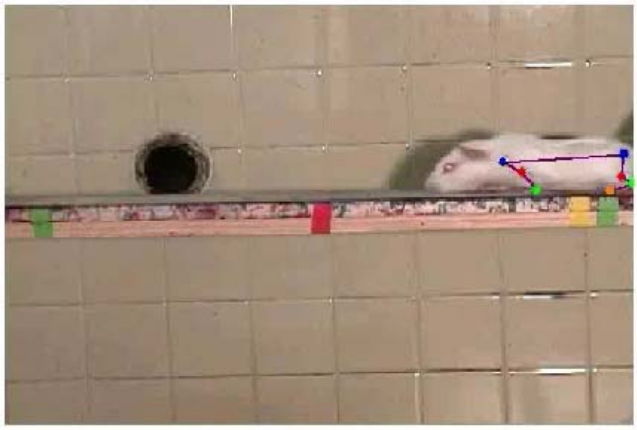


Guinea pig exposed to only 1.5 x LD_{50} Soman and immediately given the conventional treatment of atropine / 2-PAM / Diazapam

Protexia® Provides Superior Survival and Prevents Neurological Toxicity

PharmAthene

Our Solution



Guinea pig pretreated with Protexia® and then 18 hrs. later exposed to 5.5 x LD_{50} of Soman

Agenda:

A Compelling Investment Opportunity

PharmAthene

- Targeting a multi-billion dollar critical market opportunity
- Industry-leading biodefense capabilities
- Two best-in-class products
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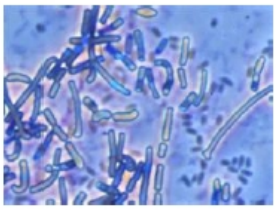
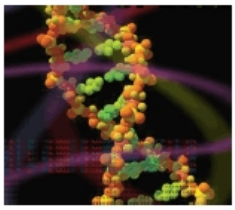




Growth Strategy

PharmAthene

1 Grow leadership position in biodefense

- Develop portfolio of best-in-class products addressing high priority gov't needs
- Add commercial products to biodefense portfolio

2 Broaden portfolio through business development

- Utilize existing infrastructure to develop new drugs
- Selectively acquire other companies/drugs/products that meet our criteria
- Pursue licensing opportunities for other products

3 Leverage infrastructure → commercial markets

- Shift potential revenue/customer mix from government to consumer
- Out-license potential products to international collaborators
- Develop existing products for other potential therapeutic treatments

Recent Contracts Validate Model

PharmAthene

- Awarded Protexia® DoD contract Sept. 06
  - Provides up to $213M
  - Protexia® selected in competitive bid process

- Awarded NIH and other government funding
  - Total NIH grant funding to date: ~$10M
  - Total gov't monies awarded to PTHN: up to $246M

- Anticipate new anthrax RFP in 2Q'07
  - DHHS Implementation Plan unveiled Jan/Feb
  - Expect anthrax to be priority focus

Milestones

PharmAthene

Event*	Date
Valortim™ therapeutic data	Q1 07
Anthrax RFP solicitation	Q2 07
Valortim™ NIAID contract ($14M)	Q2 07
Complete Protexia® process development	Q2 07
Protexia® Alzheimer's proof of concept	Q4 07
Anthrax RFP award	Q2 08
Initiate pivotal Protexia® animal tox study	Q2 08
File Protexia® IND	Q4 08



**The Milestones listed above are targets established by the Company. The achievement of these milestones are subject to specific events, many of which are not within the control of the Company. There can be no assurance that the events will occur within the time frames indicated.*

Financial Overview

PharmAthene

- Premier healthcare venture capital presence ~$70 million

MPM CAPITAL *Investing in Healthcare Innovation* · BEAR STEARNS · HealthCare Ventures LLC · MDS Capital · TEACHERS' PENSION PLAN · Fairway CAPITAL MANAGEMENT

- Investment in development of the PharmAthene business:
  - ~$1M / month
- Pro forma cash of $68M (estimated at closing)
- Defense model allows sale of product prior to FDA approval
- Projected revenue growth of $67.5mm and $213.0mm in 2008 and 2009, respectively*

**See end note.*

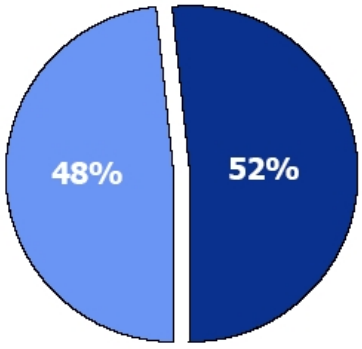
Financial Overview

PharmAthene

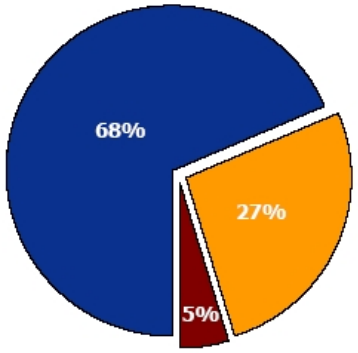
Pro Forma Ownership

(shares in thousands)

Basic Shares	Pro Forma Shares O/S
Existing shares (HAQ)	11,650
New shares issued (PharmAthene)	12,500
Total shares outstanding	24,150



Fully-Diluted Shares*	
Basic Shares	24,150
Warrants	9,400
UPO shares	225
UPO warrants	225
Convertible debt	1,250
Fully-diluted shares outstanding (pro forma)	35,250



**Note: Excludes new incentive stock option pool of 3.0M shares, or 7.8% of fully-diluted shares.*

Financial Overview

PharmAthene

Transaction Valuation

(shares in thousands, $ in millions)

Healthcare Acquisition Corp. price per share (1/16/07)	$7.54
Total shares outstanding	24,150
Pro forma market capitalization	$182.1
Cash	$68.0
Assumption of convertible debt(1)	$12.5
Implied enterprise value	$126.7

(1) Debt convertible at $10.00/share.

Financial Overview

PharmAthene

Valuation

Biotechnology public company valuation analysis	Enterprise Value/ Revenue(1) 2008	2009
Cangene Corp.	4.2X	3.5X
Emergent BioSolutions, Inc.	1.6X	1.4X
BioCryst Pharmaceuticals Inc.	8.0X	5.5X
AVI Biopharma Inc.	6.3X	6.3X
SIGA Technologies Inc.	16.0X	NM
High	16.0x	6.3x
Mean	7.2x	4.2x
Median	6.3x	4.5x
Low	1.6x	1.4x
PharmAthene implied EV/Rev multiple(2)	**1.9X**	**0.6X**
PharmAthene implied valuation(2)	$778M	$556M

(1) *Source: Analyst estimates and multiples as of January12, 2007.*
(2) *Valuation based on PharmAthene 2008 and 2009 projected revenues of $67.5M and $213.0M, respectively. 2008 revenues are weighted to 2H08 and could be recognized in 2009.*

In Summary

A Compelling Investment Opportunity

PharmAthene

- Industry-leading biodefense company
  - Initial focus in biodefense with expansion into broader markets
- Best-in-class products for high priority biodefense needs
  - Valortim™ for anthrax and Protexia® for nerve agents
- Impressive funding record, focused business strategy
  - Gov't funding: up to $250M; VC funding: $70M
- Experienced management team and strong Board of Directors
  - Management team with 30 products commercialized
- Clear growth strategy emphasizing early revenue
  - Commercial launches in 2008/2009

End Note

The potential revenue information provided for herein is a forward looking statement that is provided by PharmAthene to express its best estimate of potential revenue. The information is based upon assumptions that have been made by PharmAthene with respect to, among other things, (i) availability of therapeutic data, (ii) release of government request for proposals, and (iii) award of government contracts. Although PharmAthene believes that these assumptions are valid at the current time, the validity of these assumptions and the occurrence of many of the events necessary for the revenues to be achieved are not under the control of PharmAthene. If any events occur, including, but not limited to complete process development of product or adequate funding of the Company, then PharmAthene may not be able to achieve the targeted revenue figures by the times indicated, if at all. Also, if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially. Accordingly, you are urged to view these figures as PharmAthene targets rather than projections of actual performance and you are cautioned not to place undue reliance on forward looking information which speaks only as of the date hereof. PharmAthene will not necessarily notify any recipients of the information provided herein if any of the assumptions change. Forward looking information provided herein is subject to all of the provisions and protections afforded by the Securities Litigation Reform Act of 1995.

PharmAthene

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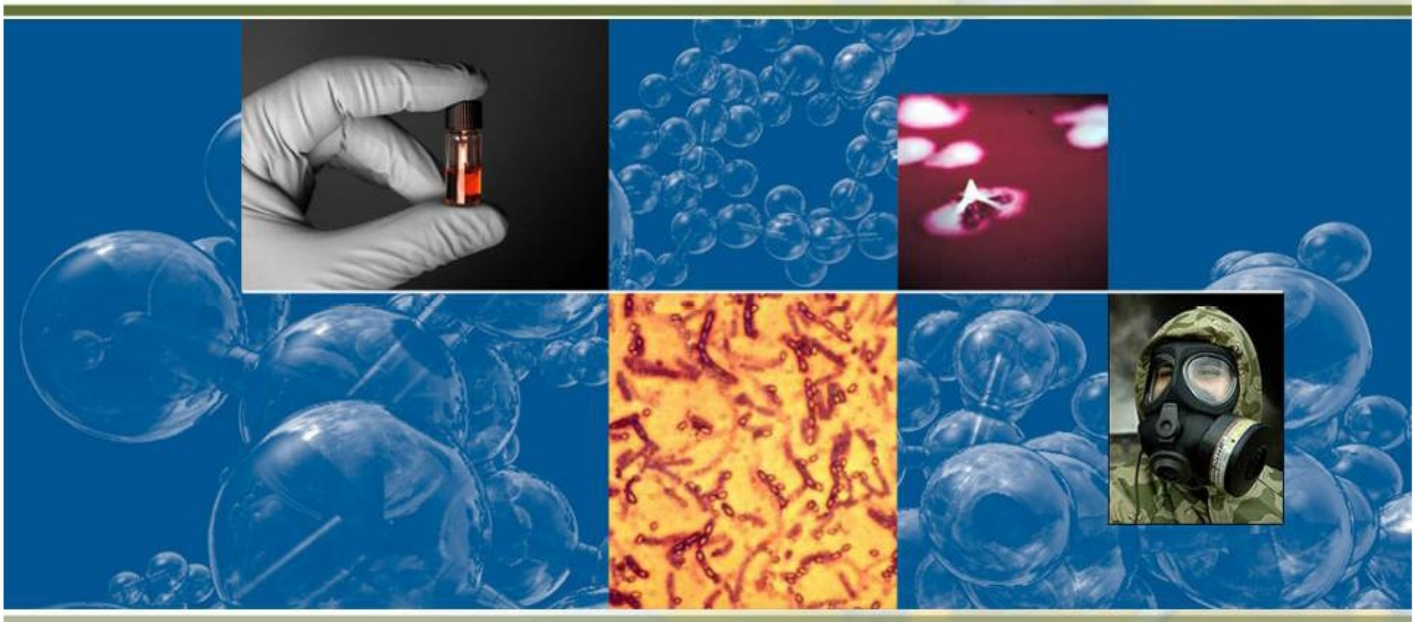

Proposed Merger with Healthcare Acquisition Corp.

January 2007

AMEX: HAQ