SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-SB

GENERAL FORM FOR REGISTRATION OF
SECURITIES OF SMALL BUSINESS ISSUERS
UNDER SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

BIOKEYS PHARMACEUTICALS, INC.
(Name of Small Business Issuer in its charter)

DELAWARE	84-1318182
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
9948 HIBERT ST., SUITE 100 SAN DIEGO, CALIFORNIA	92131
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (858) 271-9671

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Common Stock, par value $0.001
(Title of Class)

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ITEM 1. DESCRIPTION OF BUSINESS

COMPANY BACKGROUND

Biokeys Pharmaceuticals, Inc. and its wholly owned subsidiary, Biokeys, Inc. (which we refer to collectively as the "Company" or "we") are a biomedical research and development business focused on treatments for cancer and viral infections. Our business is in the development stage, meaning that we have not

generated any significant revenues and we have not yet marketed any product. Through our license agreements with the University of Texas M.D. Anderson Cancer Center (referred to as "M.D. Anderson") and the University of Southern California (referred to as "USC"), we have development, commercialization, manufacturing and marketing rights to a number of drug candidates in the fields of antiviral and anti cancer therapy, which are in varying stages of development. Our goal is to become a leading developer of drug therapies for HIV/AIDS, HPV (human papillomavirus) and cancer.

Until our recent merger with Biokeys, Inc., a privately held biomedical research and development company based in San Diego, California, our parent company was known as BioQuest, Inc. When our merger was completed on October 10, 2000, Biokeys, Inc. became a wholly-owned subsidiary of BioQuest, Inc., and BioQuest, Inc. changed its name to Biokeys Pharmaceuticals, Inc. In the merger, the shareholders of Biokeys, Inc. received Common Stock in our parent company equal to 50% of the total Common Stock of the parent company outstanding at the consummation of the merger.

Since the date of the merger, we have maintained two offices. Our principal executive office is located at 9948 Hibert Street, Suite 100, San Diego, California 92131, (telephone number 858/271-9671). We also maintain an office at 333 N. Sam Houston Parkway, Suite 1035, Houston, TX 77060 (telephone number 281/272-0000) where a number of administrative and financial functions are carried out. We also maintain a website located at WWW.BIOKEYS.COM, but the information on our website is not part of this registration statement.

Our Common Stock has been traded in the over-the-counter market and quoted in the "pink sheets" under the ticker symbol "BKYS." (See Part II, Item 1 below.)

COMPANY TECHNOLOGIES UNDER DEVELOPMENT

We have six potential drug products in development:

PRODUCT LINE	FOCUS	APPLICATION
CoFactor(TM)	Anticancer	5-FU biomodulator
Selone(TM)	Anticancer	alkylating agent for drug-resistant cancers
EradicAide(TM)	Antiviral	HIV/AIDS prophylactic and therapeutic agent
BlockAide/CR(TM)	Antiviral	HIV/AIDS therapeutic agent
BlockAide/VP(TM)	Antiviral	HIV/AIDS therapeutic agent
Thiovir(TM)	Antiviral	broad-spectrum agent for human papillomaviruses and other viral infections

COFACTOR

CoFactor (5,10-methylenetetrahydrofolate) is a patented new drug which greatly improves the performance of 5-FU (5-Fluorouracil) and other fluoropyrimidines commonly used in cancer chemotherapy. It was developed by researchers at USC in Los Angeles and at the Sahlgrenska University Hospital, University of Goteborg, Sweden, who discovered its ability to greatly enhance 5-FU's inhibition of a key enzyme, thymidylate synthase (TS), necessary for cancer cell growth. Since 5-FU is probably the most extensively used cancer chemotherapy drug in the world, this enhanced performance makes CoFactor a promising new combination therapy drug for the treatment of cancer.

Between November 1989 and March 1993, a Phase I/II clinical study of the use of CoFactor in combination with 5-FU was performed at Sahlgrenska University Hospital, under the direction of Dr. Bengt Gustavsson, in close collaboration with Dr. Colin Paul Spears at USC. Dr. Gustavsson and Dr. Spears, who are the co-inventors of this technology, are currently medical/clinical consultants to the Company. Results of their work with humans were published in THE CANCER JOURNAL, vol. 10, no. 5 September-October 1997.

In the human clinical trials at Sahlgrenska University Hospital, CoFactor was administered to 62 cancer patients receiving 5-FU therapy. Partial responses in the range of 21%-55% were noted in colorectal, pancreas, stomach, gallbladder and breast cancer patients. The average duration of remissions was 9-15 months, which is at least a two-fold increase over 5-FU/leucovorin therapy. Toxicity was milder than expected for 5-FU or 5-FU/leucovorin, and no toxicities of CoFactor have been observed. We consider that these results represent a significant improvement over 5-FU/leucvorin standard traditional therapy for cancer patients.

Several publications appeared during late 1997 and early 1998 in leading medical journals, including CANCER INVESTIGATIONS, CANCER TREATMENT, ANTICANCER RESEARCH, and THE CANCER JOURNAL, concerning the use of CoFactor. Such publications discussed:

- curative results with 5-FU therapy in combination with CoFactor for liver cancer in animal studies compared to 5-FU alone or to 5-FU/leucovorin therapy;

- significant response to 5-FU/CoFactor in animal colon cancer studies;

- human pharmacokinetic (drug action/metabolism) data documenting high blood levels of CoFactor for several hours after administration; and

- the achievement of stabilizing the CoFactor compound for routine administration to patients.

Since the time when the clinical trials were conducted and reported, technology for analyzing human enzyme levels has progressed. As a result, in January 2001, the Company undertook a study on tissue samples from the 62 patients who were treated in the earlier trials, by

retrieving paraffin-embedded tissues of those patients from the Sahlgrenska University Hospital's medical archives. Analyses were based upon a RT-PCR (Reverse Transcriptase - Polymerase Chain Reaction), a technique first described in Goteborg, Sweden in 1977 for detection of TS gene expression, but now dramatically improved by technology developed at USC. This advancement permitted retrospective analyses from paraffin-fixed tissues, using micro-disection technology, which enabled the Company to better understand why patients responded to 5- FU/CoFactor therapy.

An IND (Investigational New Drug) application has been submitted to the U.S. Food and Drug Administration, or FDA, for approval of Phase II / III trials for second-line metastatic colorectal cancer therapy, in order to test CoFactor in conjunction with 5-FU. We also intend to file an IND with the Swedish FDA later this year or in early 2002.

SELONE

Selone is the Company's leading compound in a new class of compounds which are potential new cancer drugs for drug resistant cancer, discovered through USC research focused on the use of the element selenium, an anti-oxidant. We are the exclusive licensee of a patent from USC, which encompasses the use of Selone and other oxygen-carbon-selenium compounds as anticancer agents, as well as the method for their synthesis.

Selone acts, in part, as a highly nitrogen-specific alkylating agent (a drug that kills cancer cells by directly attacking their DNA) found to be effective against cancer cell lines that exhibit drug resistance to currently available alkylating and platinating (akylating compounds which contain platinum) agents. Alkylating agents, as a class, are the most broadly used anticancer agents in the world, collectively surpassing the use of 5-FU. In recent years, alkylating agents have been increasingly used, in dose intensification strategies such as bone marrow transplant, and have exhibited further promise when used with compounds known as thiophosphate protection agents. However, a majority of cancers develop resistance to currently available alkylating and platinating agents, usually through a thiol (sulfur metabolism) mechanism. Selone was developed to address this problem, through increased targeting to guanine nitrogen contained in DNA, without increased susceptibility to the thiol mechanisms connected with drug resistance.

Based upon current IN VITRO screening methods, Selone shows promise of being broadly effective, at even very low concentrations, against human ovarian, breast, lung and head/neck cancers, and against leukemias and lymphomas. Its potency is remarkably high for its rate of alkylating activity, suggesting an increased specificity of action. Demonstrated effectiveness in central nervous system cell lines, in addition to the extraordinarily high solubility of Selone in watery and fatty tissues, suggests potential activity in brain tumors. Selone shows full activity in human cell lines resistant to other cancer drugs, including antitumor antibiotics, and in nitrosourea-resistant colon cancer. It has also demonstrated significant activity against leukemia in mice at doses predicted to readily achieve effective blood concentrations.

Now that chemical, kinetic and tissue toxicity relationships have been established for

Selone, we are planning further IN VIVO testing and pre-clinical optimization

and toxicity studies to determine recommended dose/schedules for later Phase I-II human clinical trials.

ERADICAIDE

We have licensed the exclusive right to commercialize a patented immunotherapeutic and vaccine strategy, developed by M.D. Anderson, that relies on eliciting a cell-mediated immunity response to treat individuals already infected with HIV and to protect against new HIV infections. A unique feature of this technology is that it is designed to not elicit an antibody response.

The survival of the HIV virus in the human body is dependant on its ability to penetrate special target cells, take over genetic material in those cells, and use that genetic material to make millions and billions of copies which then propagate from the surface of the cell, killing the cell in the process. In cell-mediated immunity, after a virus has penetrated the cell and released its genetic material, its viral proteins are broken into fragments by the infected cell. The resulting viral protein fragments are then transported within the infected cell through a mechanism called the MHC (Major Histocompatibility Complex) Class I pathway to special sites on the surface of the infected cell. Here the viral protein fragments are displayed to the body's immune system as evidence that the cell is infected and should be destroyed before it can produce new virus particles. Cruising Killer T-cells, circulating in the body, recognize the presence of these displayed viral proteins as a signal to kill the infected cells and also as a signal to the immune system to produce more Killer T-cells preprogrammed to seek out and specifically kill off the HIV infected cells.

A research model system incorporating a special version of HIV has recently been developed. A form of SHIV or Simian (monkey)/human Immunodeficiency Virus, a chimeric virus, which contains the inner core proteins and genetic material from SHIV and the outer envelope proteins and viral binding proteins of HIV, has proven to be an invaluable research tool in the quest for effective approaches to HIV control. Monkeys to whom SHIV was administered showed rapidly induced immunodeficiency (profound reduction in CD-4 positive cell counts within three to four weeks after infection), progressing to an AIDS state nearly identical to that seen in humans infected with HIV.

Preliminary trials were conducted at the University of Texas animal research facility in Bastrop, Texas under the supervision of Dr. Jagan Sastry. Rhesus monkeys were used along with SHIV developed by a group of research labs, including M.D. Anderson. M.D. Anderson's SHIV development work was supported in part by the Company. In the trial, test animals were vaccinated with the Company's cell-mediated immunity agent known as EradicAide, and subsequently challenged with live SHIV. Compared to control animals, viral levels in plasma in treated animals were reduced more than 1,000-fold three weeks after challenge with virus. In non-treated control animals, the CD-4 positive T-cell counts dropped at least 90% while in treated animals the change in CD-4 positive T-cell counts ranged from 0 to 10% with one animal showing a maximum 30% reduction.

These data demonstrate scientific proof of principle for the cell-mediated immunity strategy. Subsequent confirmatory trials and safety testing are now being performed by the Company. We expect that the Company may be able to qualify for the FDA's Fast Track Program for human trials, which provides for an accelerated FDA review process of HIV therapeutic drugs.

BLOCKAIDE/CR

Scientists at M.D. Anderson have developed another approach to combating HIV, based on the BlockAide/CR compound, a synthetic peptide (a sequence of amino acids that is part of a protein) which appears to be able to block the ability of HIV to infect human immune cells. During IN VITRO experiments in human cell cultures, and in preliminary animal tests conducted at M.D. Anderson and sponsored by the Company, BlockAide/CR was able to significantly depress the level of HIV infection indicated in blood samples.

Studies from several laboratories, including M.D. Anderson and the U.S. National Institutes of Health, indicate that at least two cell surface receptors are involved in the mechanism for HIV binding and immune cell penetration. One is the CD4 receptor, largely found on T helper cells which are part of the human immune system. The second receptor, which has only recently been described, is represented by members of a family of chemokine receptors, a type of target cell molecule. HIV researchers have found that a molecular component called the V3 Loop, which is part of the GP-120 surface protein on the outer coat of the HIV virus, plays a critical role in interacting with these CD4 receptors and chemokine receptors, thus initiating the infection process.

M.D. Anderson researchers believe that the BlockAide/CR compound, which is structurally similar to a portion of the V3 Loop, mimics the V3 Loop and, by occupying CD4 receptor sites on immune system cells, prevents the virus from binding to immune cell receptors and subsequently penetrating the cell. Dr. Jagan K. Sastry of M.D. Anderson is credited with discovering the inhibitory effects of BlockAide/CR. He likens the V3 Loop to a key: when HIV, using the V3 Loop as a key tries to enter a human cell via a CD4 receptor site (the keyhole), the virus is unsuccessful because the entrance key hole is already blocked by BlockAide/CR.

In addition, based on their work to date, Dr. Sastry and his research colleagues believe that BlockAide/CR can effectively block syncytium formation and prevent or limit the T-cell loss that invariably occurs with a progressive HIV infection. Syncytium formation is a very important step in the spread of HIV infection and the destruction of T-cells. In this process, an HIV infected cell combines with a number of healthy T-cells to form a large multinuclear mass or syncytium. The syncytia die quickly, killing the incorporated T-cells and releasing massive numbers of newly formed HIV particles.

Published studies suggest that, at the time of its initial transmission, and for a variable period afterwards, HIV exists largely in nonsyncytial form and is relatively harmless to the body's natural immune system. It is believed that, during this phase, T-cells generated by the immune

system keep the virus in check. As the virus evolves, however, it acquires the ability to infect T- cells and the immune system becomes less able to combat the virus. The result is the emergence of the syncytial form of HIV and the onset of the illness phase, the point at which the patient begins to develop AIDS.

The Company intends to conduct large animal toxicology testing for BlockAide/CR which, if successful, is expected to enable the Company to proceed with preparations for human testing under the FDA's Fast Track Program.

BLOCKAIDE/VP

The BlockAide/VP compound was also created and patented by M.D. Anderson and is licensed to the Company. It works to prevent HIV infection in human cells in a different way from BlockAide/CR.

HIV depends on its ability to enter and infect host cells in order to multiply and survive. In the case of HIV, the binding protein GP-120 on the surface of the HIV particle interacts with a receptor site known as CD4, which is present on the surface of certain human cells. Interaction of the HIV virus with CD4 causes a change in the shape of GP-120, uncovering the actual binding region of GP-120, which then fuses with a second, chemokine receptor.

The BlockAide/VP compound mimics a section of the CD4 receptor. When BlockAide/VP comes into contact with the GP-120 protein present on the surface of HIV, it appears to cause a change in the protein-folding configuration of GP-120, rendering the GP-120 unable to initiate the infection process.

Early tests indicate that HIV virus treated with BlockAide/VP and exposed to human cells is unable to bind to and infect such cells. The Company does not know of any other available antiviral agent which can render HIV unable to infect cells in this manner.

BlockAide/VP has progressed through IN VITRO testing, and though a preliminary primate trial, with encouraging results. Further preclinical and animal toxicity testing must be conducted before progressing to human trials, in the same manner as described above for BlockAide/CR. If proven safe and effective in preclinical testing, and if approved by the FDA through its Fast Track Program, BlockAide/VP could be used for HIV infected individuals as an adjunct to Triple Combination Therapy, a multiple drug regimen widely used to suppress HIV in HIV infected humans to prevent the onset of AIDS, or as a primary therapy for newly infected individuals.

THIOVIR

Thiovir is a sulfur-containing compound synthesized using technology developed at USC and exclusively licensed to the Company by USC.

Thiovir and Thiovir-analogues under development are part of a new class of compounds

known as thiophosphonoformates (sulfur/phosphorous compounds), which have demonstrated powerful antiviral properties. Thiovir was designed to be a replacement for the broad-spectrum antiviral drug, foscarnet. Foscarnet is administered by intravenous catheter (IV drip) and is FDA-approved for treatment of HIV, herpes and CMV (cytomegalovirus) infections. Although foscarnet is a highly effective, broad-spectrum antiviral, it has limitations from a commercial perspective because it must be administered by IV catheter with medical supervision. Also, foscarnet is a small molecule whose parent chemical structure restricts modifications that could lead to the future development of an oral form of the drug.

In contrast to foscarnet, the creation of thiophosphonates (such as Thiovir) makes possible an entirely new class of compounds, of which there can be many proprietary derivatives. These derivatives can lead to additional improvements in antiviral effectiveness, oral drug forms and reduced toxicity. The thiophosphonate is delivered as an active prodrug (an initial form of a drug which converts in the body through normal metabolic processes), and may also metabolize to additional active compounds. In the case of Thiovir, a dual action antiviral effect is achieved through delivery of an active prodrug and an active metabolite, which happens to be foscarnet.

An IN VITRO test of a group of Thiovir analogues was conducted at the National Cancer Institute. Results reported to USC in early 2000 revealed several compounds with better therapeutic values than foscarnet for HHV-8, a herpes virus linked to Kaposi's sarcoma, the cancer that causes lesions on the skin of AIDS patients. In addition, preliminary studies conducted by the Company on Thiovir efficacy against papillomaviruses (a viral infection directly related to genital warts and cervical cancer) between 1999 and 2001, with collaborators at the Gittlen Cancer Research Institute and Hershey Medical Center, Penn State University, showed that Thiovir had potential as an antiviral treatment for papillomavirus infection. Current research and development efforts for Thiovir are supported by the Company and by U.S. government funding. Assuming continued positive research results, the Company would intend to file an IND for a form of Thiovir for testing in humans infected with genital warts caused by HPV.

MEDICAL MARKETS

ANTI-CANCER AGENTS

On a worldwide basis, cancer killed over 6 million people in 1998, according to statistics published by the World Health Organization. After cardiovascular disease, cancer is the second most frequent cause of death in developing countries, accounting for 21% of all deaths. In the U.S., cancer is responsible for approximately 23% of all deaths according to recent statistics. The American Cancer Society reported in 1998 that there were more than 1.4 million new cases of cancer diagnosed in the U.S. and over 560,000 deaths due to cancer in the previous year.

Treatment choices for the cancer patient depend on the stage of the cancerous tumor, and whether and/or how far the cancer has spread. Treatment options include surgery, radiation, chemotherapy, hormone therapy and immunotherapy. Treatment of cancer with chemicals is

referred to as chemotherapy, which represents a current market in the US of approximately $9 billion, according to Frost & Sullivan Market Research and IMS Market Research.

Traditional cancer chemotherapy poisons all body cells to some extent, but particularly targets rapidly dividing cells such as cancer cells. Its effect on other rapidly dividing cells, such as hair follicles, cells lining the stomach and red blood cells, accounts for some of the more common negative side effects of cancer chemotherapy. Current approaches often use several drugs in combination, aimed at minimizing side effects while attacking the rapidly proliferating cells at vulnerable times.

Chemotherapy is highly individualized, depending on the type of disease and its progression, the action of the agents used, and the side effects in the patient, and may be used alone or in combination with other cancer therapies, such as surgery or radiation. Chemotherapy drugs such as 5-FU, Ancobon, Methotrexate, Alkeran and Cyloxan, are commonly used to treat patients.

We believe that the total annual market potential for CoFactor is related to new cases of cancer, which are often treated by 5-FU therapy, the single most widely used cancer drug in the world, according to industry experts. Doses of 5-FU vary widely based upon the cancer being treated. As an example, in U.S. therapy regimens, approximately 36 doses of 5-FU are administered to

approximately two-thirds of colorectal cancer patients annually, compared with 12 doses of 5-FU to about one-third of breast cancer patients.

Based upon statistics for cancer incidence and cancer treatment reported by the American Cancer Society, we estimate that the annual potential for CoFactor use can be based on an assumed annual use of over 4 million doses of 5-FU, with initial emphasis focused on combination therapy with 5-FU for colorectal cancer. There are approximately 131,000 new cases of colorectal cancer per year in the US alone. It should be noted that these estimates do not take into account additional market opportunities to enhance other drugs similar to 5-FU, such as floxuridine (FUDR), florafur (tegafur), Doxifluridine(R) (5'deoxyfluorouridine) and Xeloda(R) (campecctabine).

Selone, which functions in part as an alkylating agent against cancer cell lines that exhibit drug resistance to currently available alkylating and platinating agents, may serve as a useful new anticancer drug. Alkylating agents as a class are the most broadly used anticancer agents in the world, collectively surpassing the use of 5-FU as single agent . In recent years, they have been used increasingly in dose intensification strategies, such as bone marrow transplant, and have exhibited further promise when used with the thiophosphate protection agents. Approximately one-half of all cancers can become resistant to treatment with current chemotherapy products. Accordingly, we believe there is great potential for new products which address drug resistance in cancer therapy.

HIV/AIDS THERAPY

Significant advancements have been made in the treatment of asymptomatic HIV positive patients. It is now understood that early combination therapy with a three or four drug "cocktail" can push HIV viral load to below "detectable levels." This therapy is often referred to as HAART (highly aggressive antiretroviral therapy). It is widely reported that the average annual drug cost for such combination therapy in the U.S. is $11,000 per patient.

However, recent studies have shown that, whether or not patients adhere to the strict therapy regimens required for HAART treatment, antiretroviral therapy will continue to lead to problems of viral resistance, rendering many drugs ineffective over time. There is no conclusive evidence that current drugs can eradicate HIV from the body over the long term. As long as HIV is present in the body, the opportunity exists for the evolution of HIV escape mutants resistant to HAART. These mutant strains can reproduce unchecked by HAART, subsequently becoming the predominant strain and re-establishing high viral loads in patients. This can lead to permanently damaged immune systems, opportunistic infections, and the advance to AIDS even if combination therapy continues. Currently, no one combination of drugs is effective for all patients, and therapies are continually modified based upon patient progress. Therefore, new drugs and new drug approaches continue to be needed for HIV therapy.

In a recent study reported by the University of California-San Francisco, based upon treatment of HIV positive patients at San Francisco General Hospital, 53% of patients had evidence of treatment failure after at least six months of therapy. Based on these facts, we believe that the demand for new types of HIV drugs, designed to block infection or to clear HIV-infected cells, will therefore increase.

The World Health Organization and the U.S. Centers for Disease Control report that there are 1.5 million HIV positive individuals in the U.S. and Europe, where the vast majority of anti- HIV drugs are used. However, according to a November 1999 report by the United Nations Program on HIV/AIDS, more than 33 million adults and children in the world are living with HIV and 16,000 new infections are occurring each day. As current transmission rates hold steady, the number of people with HIV/AIDS will soar to 40 million in 2001. HIV infections are not being treated in the third world, to even the smallest extent, since cost is prohibitive and the ability to administer complex therapy is nearly impossible. Thus, simple, inexpensive new therapies are required.

THIOVIR AND HPV

According to the Center for Disease Control and the American Cancer Society, the most prevalent sexually transmitted disease in the U.S. is human papillomavirus (HPV) infection, which is extremely contagious, with approximately two-thirds of all people exposed to the virus becoming infected within a three-month period. The virus exists in over 80 different subtypes, 40 of which affect the urogenital region.

Transmission of HPV usually occurs through direct skin contact during vaginal, anal or oral sex with an infected individual, and warts (called genital warts or condylomas) may or may not begin to appear on the skin surrounding the entrance to infection, depending on the length of the latency period. Because one of the consequences of HPV infection is the introduction of abnormal cells, the infection may lead to cancerous growths, particularly on the cervix. Although HPV and genital warts are treatable, there is currently no known cure for the infection.

HPV is highly prevalent in women under 30 years of age, and studies indicate that the majority of college age women are HPV positive without clinical or cytological evidence. According to American Cancer Society, the lifetime risk of invasive cancer is 5-10% for untreated HPV infection, and, if infected with a high-oncogenic form of HPV, there is a 70% risk of having an abnormal papsmear. Approximately 5.5 million new cases of sexually transmitted HPV occur in the U.S. each year, with at least 20 million people currently infected according to pharmaceutical industry estimates. Of special importance is the link between HPV and cancer, particularly cervical cancer. The role of HPV as a principal agent in the etiology of cervical cancer has been clearly established by the American Cancer Society and the American Association of Obstetrics and Gynecology.

Preliminary studies sponsored by the Company on Thiovir efficacy against HPV, with collaborators at the Gittlen Cancer Research Institute and Hershey Medical Center, Penn State University, showed that Thiovir had potential as an antiviral treatment for papillomavirus infection. These studies along with animal toxicology data, could provide the basis for an IND to test a topical form of Thiovir for genital warts in humans.

MARKETING AND SALES

We do not presently have a marketing and sales staff, although the experience and background of Nicholas Jon Virca, President of Biokeys, Inc., includes pharmaceutical marketing and sales functions. As one or more Company products approach commercialization, we intend to seek arrangements with third parties, such as pharmaceutical companies, for the marketing and distribution of our products. At that point, we would also seek to add marketing personnel for liaison, support and administrative purposes. While we have held preliminary discussions on a number of occasions with potential commercialization and marketing partners, we have not yet entered into any binding agreements with a commercialization or marketing partner.

For further information on the requirements for clinical trials and future commercialization, see the discussion below under "Government Regulation and Clinical Testing for New Drugs." See also the discussion under "Risk Factors" in Item 2 below.

MANUFACTURING

We do not have our own manufacturing facilities, and do not intend to establish them. However, the Company has entered into a manufacturing agreement with Eprova AG, of Schaffhausen, Switzerland and Clinalfa AG of Laufelfingen, Switzerland, under which Eprova

and Clinalfa will produce CoFactor for clinical trial requirements and future product sales. In the future, we will have to establish one or more relationships with additional manufacturers as new drug candidates progress through development, testing and commercialization stages. Consequently, the Company will be dependent upon various manufacturers for a reliable supply of its drug products. (See "Risk Factors" in Item 2 below.)

LICENSING AND RESEARCH AGREEMENTS

M.D. ANDERSON AGREEMENTS

In June 1996, the Company entered into an exclusive worldwide Patent and Technology License Agreement with M.D. Anderson (the "M.D. Anderson Agreement") granting development, manufacturing and marketing rights, relating to the commercialization of technologies described in seven patents and patent applications developed by scientists at M.D. Anderson in the field of HIV therapy and preventions. The M.D. Anderson Agreement continues in effect for the life of the subject patents (including any extensions or renewals), and requires payment of royalties based on percentages of sales and a share of sub-licensing revenues from products developed under the Agreement. Our exclusive license

rights are subject to any non- exclusive rights that the U.S. government may have as a result of any agreement between it and M.D. Anderson by which government-funded research was provided in connection with the licensed technology. The M.D. Anderson Agreement requires the Company to reimburse M.D. Anderson for the cost of preparing, filing, prosecuting and maintaining the licensed patents.

The M.D. Anderson License Agreement was amended effective June 15, 2000 (the Amendment). The Amendment incorporated additional licensed subject matter, revised certain royalty rates due to M.D. Anderson upon commercialization, and settled past due patent and research and development amounts from the Company to M.D. Anderson. In accordance with the Amendment, we issued 414,829 shares of our Common Stock to M.D. Anderson, valued at $1,000,000 based on the then market price of the shares. In addition, the Company committed to funding at least $1,000,000 of research and development activity through December 31, 2001. Finally, the Amendment defined a milestone payment due to M.D. Anderson upon the enrollment of the first patient in the first Phase I trial of any product that utilizes licensed subject matter.

No royalties have been paid under the M.D. Anderson Agreement and Amendment.

USC AGREEMENTS

Under an Option and License Agreement with USC dated January 23, 1998, amended August 16, 2000, we hold exclusive license rights to a total of three patents, two relating to Biokeys' CoFactor product and one relating to Selone, both of which are intended for use in connection with cancer chemotherapy. In addition, under a second Option and License Agreement dated August 17, 2000, we acquired exclusive rights under the four patents related to Thiovir antiviral technologies. These agreements with USC (the USC License Agreements) grant us exclusive worldwide licenses to study, use, manufacture and market drug products

covered by the subject patents. Under the USC License Agreements, we are obligated to pay USC for out-of-pocket expenses incurred in filing, prosecuting, enforcing and maintaining the licensed patent rights and all future patent-related expenses paid by USC, as long as the USC License Agreements remain in effect and until the patent rights have expired. USC's retained interest consists of a running royalty on net sales of licensed products and a share of consideration received by Biokeys from all sublicenses and assignments. No royalties have been paid under these agreements.

SPONSORED RESEARCH AGREEMENTS

We entered into a sponsored research agreement with M.D. Anderson on September 7, 2000, which provides for studies to test the ability of a mixture of synthetic HIV-derived peptides to elicit an antibody-negative cell-mediated immune response. The testing will seek to determine if this immune response can protect against new HIV infection and if the preparation can be administered after HIV infection as a therapeutic. This requires a total of $814,490 payable in two equal installments for research to be conducted through 2001 and into 2002. The first installment was paid by the Company in 2000 and the second in 2001.

We also have sponsored research arrangements with USC, under which USC will continue studies in the therapeutic potential of Thiovir and its analogues as antiviral agents. The Company has entered into a grant agreement with USC effective November 1, 2000, under which USC will perform research into Thiovir and its analogues as inhibitors for HPV and other pathogenic viruses. The budgeted research costs for this study are approximately $217,000, which have been paid by the Company.

GOVERNMENT REGULATION AND CLINICAL TESTING FOR NEW DRUGS

The manufacture and sale of therapeutic drugs are subject to government regulation in the U.S. and in certain foreign countries. In the U.S., we must follow rules and regulations established by the FDA requiring the presentation of data indicating that our products are safe and efficacious and are manufactured in accordance with the FDA's current Good Manufacturing Practices (cGMP) regulations.

Safety and effectiveness standards are required in certain other countries as well. The Company believes that only a limited number of foreign countries have extensive regulatory requirements for new drugs, especially Japan and the countries comprising the European Union.

The steps required to be taken before a new prescription drug may be

marketed in the U.S. include (i) preclinical laboratory and animal tests, (ii) the submission to the FDA of an IND, which must be evaluated and found acceptable by the FDA before human clinical trials may commence, (iii) adequate and well-controlled human clinical trials to establish the safety and effectiveness of the drug, (iv) the submission of a New Drug Application (NDA) to the FDA and (v) FDA approval of the NDA. Prior to obtaining FDA approval of an NDA, the facilities that will be used to manufacture the drug must undergo a preapproval inspection to ensure

compliance with the FDA's cGMP regulations.

Preclinical tests include laboratory evaluation of product chemistry and animal studies to assess the safety and effectiveness of the product and its formulation. The results of the preclinical tests are submitted to the FDA as part of an IND, and unless the FDA objects, the IND will become effective 30 days following its receipt by the FDA, after which clinical trials can begin. If the FDA has concerns about the proposed clinical trial, it may delay the trial and require modifications to the trial protocol prior to permitting the trial to begin.

Clinical trials involve the administration of the pharmaceutical product to healthy volunteers or to patients identified as having the condition for which the product is being tested. The pharmaceutical product is administered under the supervision of a qualified principal investigator. Clinical trials are conducted in accordance with protocols previously submitted to the FDA as part of the IND that detail the objectives of the trial, the parameters used to monitor safety and the efficacy criteria that are being evaluated. Each clinical trial is conducted under the auspices of an Institutional Review Board ("IRB") at the institution at which the trial is conducted. The IRB considers, among other things, ethical factors, the safety of the human subjects and the possible liability risk for the institution.

Clinical trials are typically conducted in three sequential phases that may overlap. In Phase I, the initial introduction of the pharmaceutical into healthy human volunteers, the emphasis is on testing for safety (adverse effects), dosage tolerance, metabolism, distribution, excretion and clinical pharmacology. Phase II involves trials in a limited patient population to determine the effectiveness of the pharmaceutical for specific targeted indications, to determine dosage tolerance and optimal dosage and to identify possible adverse side effects and safety risks.

In serious diseases such as HIV/AIDS, patients suffering from the disease rather than healthy volunteers are used in Phase I trials. In addition, Phase I trials may be divided between Phase Ia, in which single doses of the drug are given, and Phase Ib, in which multiple doses are given. In the latter instance, some efficacy data may be obtained if the subjects are patients suffering from the disease rather than healthy volunteers, and these trials are referred to as "Phase Ib/IIa."

After a compound has been shown in Phase II trials to have an acceptable safety profile and probable effectiveness, Phase III trials are undertaken to evaluate clinical effectiveness further and to further test for safety within an expanded patient population at multiple clinical study sites. The FDA reviews both the clinical trial plans and the results of the trials at each phase, and may discontinue the trials at any time if there are significant safety issues.

The results of the preclinical tests and clinical trials are submitted to the FDA in the form of an NDA for marketing approval. The testing and approval process requires substantial time and effort, and FDA approval may not be granted on a timely basis or at all. The approval process is affected by a number of factors, including the severity of the disease, the availability of alternative treatments and the risks and benefits demonstrated in clinical trials. Additional

animal studies or clinical trials may be requested during the FDA review process and may delay marketing approval.

Upon approval, a drug may be marketed only for the FDA approved indications in the approved dosage forms. Further clinical trials are necessary to gain approval for the use of the product for any additional indications or dosage forms. The FDA may also require post-market reporting and may require surveillance programs to monitor the side effects of the drug, which may result

in withdrawal of approval after marketing begins.

The FDA has developed several regulatory procedures to accelerate the clinical testing and approval of drugs intended to treat serious or life-threatening illnesses under certain circumstances. For example, in 1988, the FDA issued regulations to expedite the development, evaluation and marketing of drugs for life-threatening and severely debilitating illnesses, especially where no alternative therapy exists (the "1988 Regulations"). These procedures encourage early consultation between the IND sponsors and the FDA in the preclinical testing and clinical trial phases to determine what evidence will be necessary for marketing approval and to assist the sponsors in designing clinical trials. Under this program, the FDA works closely with the IND sponsors to accelerate and condense Phase II clinical trials, which may, in some cases, eliminate the need to conduct Phase III trials or limit the scope of Phase III trials. Under the 1988 Regulations, the FDA may require post-marketing clinical trials (Phase IV trials) to obtain additional information on the drug's risks, benefits and optimal use.

In 1992, the FDA issued regulations establishing an accelerated NDA approval procedure for certain drugs under Subpart H of the agency's NDA approval regulations ("Subpart H Regulations"). The Subpart H Regulations provide for accelerated NDA approval for new drugs intended to treat serious or life-threatening diseases where the drugs provide a meaningful therapeutic advantage over existing treatment. Under this accelerated approval procedure, the FDA may approve a drug based on evidence from adequate and well-controlled studies of the drug's effects. This approval is conditional on the favorable completion of trials to establish and define the degree of clinical benefits to the patient. In this case, post-marketing clinical trials would usually be underway when the product obtains accelerated approval. If, after approval, a post-marketing clinical study establishes that the drug does not perform as expected, or if post- marketing restrictions are not adhered to or are not adequate to ensure the safe use of the drug, or other evidence demonstrates that the product is not safe and/or effective under its conditions of use, the FDA may withdraw approval. The Subpart H Regulations can complement the 1988 Regulations for expediting the development, evaluation and marketing of drugs. These two procedures for expediting the clinical evaluation and approval of certain drugs may shorten the drug development process by as much as two to three years.

We believe that several of our drugs may be candidates for accelerated development and/or approval under the 1988 Regulations and/or the Subpart H Regulations. This would include our HIV/AIDS drugs as well as the Company's anticancer agents.

Once the sale of a product is approved, the FDA regulates the manufacturing and

marketing of the product. The FDA periodically inspects both domestic and foreign drug manufacturing facilities to ensure compliance with applicable cGMP regulations and other requirements. In addition, manufacturers in the U.S. must register with the FDA and submit a list of every drug in commercial distribution. Foreign manufacturers are subject only to the drug listing requirement. Post-marketing reports are also required to monitor the product's usage and effects. Product approvals may be withdrawn, or sanctions imposed, if compliance with regulatory requirements is not maintained.

Many foreign countries also regulate the clinical testing, manufacturing, marketing and use of pharmaceutical products. The requirements relating to the conduct of clinical trials, product approval, manufacturing, marketing, pricing and reimbursement vary widely from country to country. In addition to the import requirements of foreign countries, a company must also comply with U.S. laws governing the export of FDA regulated products.

HEALTH CARE REFORM MEASURES AND THIRD PARTY REIMBURSEMENT

Pharmaceutical companies are affected by the efforts of governments and third party payors to contain or reduce the cost of health care through various means. A number of legislative and regulatory proposals aimed at changing the health care system have been proposed in recent years. In addition, an increasing emphasis on managed care in the U.S. has and will continue to increase pressures on pharmaceutical pricing. While the Company cannot predict whether legislative or regulatory proposals will be adopted or the effect such proposals or managed care efforts may have on its business, the announcement and/or adoption of such proposals or efforts could have a material adverse effect on the Company. In the U.S. and elsewhere, sales of prescription pharmaceuticals are dependent in part on the availability of reimbursement to the consumer from third party payors, such as government and private insurance

plans that mandate predetermined discounts from list prices.

RESEARCH AND DEVELOPMENT OUTLAYS

During 1999 and 2000, the Company expended $351,446 and $983,198, respectively, on research and development activities.

EMPLOYEES

At June 30, 2000, the Company had two full-time employees and one part-time employee.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

As a development-stage biomedical research company, we have not yet generated any revenues from our anti-cancer and anti-viral products. We have had no earnings since inception, and have an accumulated deficit of $7,704,222 as of December 31, 2000. Our expenses have

related mainly to costs incurred in research activities for the development of our drug candidates and from administrative expenses required to support these efforts. We expect losses to continue for the near future, and such losses will likely increase as human clinical trials are undertaken in the U.S. and Europe for our CoFactor drug. Future profitability will be dependent upon our ability to complete the development of our pharmaceutical products, obtain necessary regulatory approvals and effectively market such products. Also, future profitability will require that the Company establish agreements with other parties for the clinical testing, manufacturing, commercialization and sale of its products.

Since inception, the Company has generally funded itself through short-term loans and the sale of equity securities. We will need to obtain additional financing in order to sustain our efforts, as discussed below under "Liquidity and Capital Resources."

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

The Company continued its research and development efforts in both 1999 and 2000, and no revenues were received during the period. However, the Company earned interest income which increased to $40,922 in 2000 from $14,234 in 1999, as a result of interest earned on funds received from the Company's overseas private placement offering.

Using the proceeds of our overseas private placement offering, we were able to significantly expand our research and development efforts in connection with our EradicAide products for HIV/AIDS. Results in preliminary, small-scale non-human primate trials warranted an expansion of the Company's research program into larger scale non-human primate trials conducted through researchers at M.D. Anderson. In addition, after the consummation of the merger with Biokeys, Inc., we began to fund research and development efforts in connection with CoFactor, Thiovir and Selone. Accordingly, our research and development expenses increased 180% from $351,446 in 1999 to $983,198 in 2000.

General and Administrative expenses increased by approximately 17% from $708,562 in 1999 to $827,970 in 2000, primarily as a result of additional costs and expenses related to the merger between the Company and Biokeys.

Depreciation and amortization increased from $5,385 in 1999 to $1,907,341 in 2000. Such increase was due entirely to the merger, which resulted in $15,205,675 of goodwill being recorded on the Company's balance sheet based on allocation of the purchase price to net assets acquired. Such amount is being amortized over a two-year period, beginning in the last quarter of 2000, at which time a goodwill amortization charge of $1,900,709 for the quarter was recorded.

Interest expense increased from $4,326 in 1999 to $23,497 in 2000, due to the accrual of interest on the Company's subordinated convertible notes issued in a private offering in the spring of 2000. All of such notes, including accrued interest, were converted into shares of Common Stock at the time of the merger, in accordance with their terms.

As a result of the factors described above, the Company's net loss increased from $1,055,485 in 1999 to $3,701,084 in 2000, and the loss per share increased from $0.20 per share in 1999 to $0.44 per share in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred negative cash flows since its inception, and has funded its activities primarily through short-term loans and sales of equity securities. As of December 31, 2000 and 1999, the Company had cash and equivalents and a certificate of deposit of $1,484,208 and $58,463, respectively. Working capital amounted to $1,297,761 at December 31, 2000, compared with a working capital deficiency of $(1,244,166) at the end of 1999, reflecting improvement due to our overseas private placement.

The Company does not have any bank or any other commercial financing arrangements. The Company's operations over the last twelve months have been funded primarily from the proceeds of an overseas private placement offering consummated in August and September 2000, through which the Company raised a total of $3.2 million through the issuance of its 8% convertible preferred stock.

The Company will need to raise a total of approximately $500,000 for the balance of calendar 2001 and will require approximately $1,000,000 for overhead expenses and another $4,000,000 to fund expanded testing of its HIV drug candidates in 2002. (See "Risk Factors," below.)

In addition, the Company expects shortly to obtain FDA approval to commence Phase II/III clinical trials for its CoFactor product. We do not have the resources to conduct such trials ourselves and are seeking a strategic partner to finance and conduct the trials. While the Company has had discussions with a number of potential CoFactor development partners, it has not yet entered into any agreement for the conduct and financing of clinical trials. If the Company is unable to enter into such an agreement on acceptable terms, it will be required to delay such clinical trials or seek an outright sale of its CoFactor rights.

The Company's dependence on raising additional capital will continue at least until the Company is able to begin marketing its new technologies. The Company's future capital requirements and the adequacy of its financing depend upon numerous factors, including the successful commercialization of the Company's drug candidates, progress in its product development efforts, progress with preclinical studies and clinical trials, the cost and timing of production arrangements, the development of effective sales and marketing activities, the cost of filing, prosecuting, defending and enforcing intellectual property rights, competing technological and market developments, and the development of strategic alliances for the marketing of its products.

The Company will be required to obtain such funding through equity or debt financing, strategic alliances with corporate partners and others, or through other sources not yet identified. The Company does not have any committed sources of additional financing, and cannot guarantee that additional funding will be available on acceptable terms, if at all. If adequate

funds are not available, the Company may be required to delay, scale-back or eliminate certain aspects of its operations or attempt to obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, products or potential markets.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

We do not engage in trading market-risk sensitive instruments and do not purchase hedging instruments or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. We have no outstanding debt instruments, have not entered into any forward or future contracts, and have purchased no options and entered into no swaps. We have no credit lines or other borrowing facilities, and do not view ourselves as subject to interest rate fluctuation risk at the present time.

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS (SFAS 141). SFAS

141 eliminates the pooling of interests method of accounting and requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The Company does not expect the adoption of SFAS 141 to have a material impact on its business because it currently has no planned or pending acquisitions.

The FASB has also issued Statement of Financial Accounting Standards No. 142 GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142) which will be effective for the Company as of January 1, 2002. SFAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires that the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. Adoption of SFAS 142 will result in the elimination of annual amortization expense related to goodwill; however, because of the extensive effort needed to comply with this statement, the impact of related impairment, if any, on our financial position or results of operations has not been determined.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We believe this registration statement contains "forward-looking statements." These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management based on information currently available on it. When we use words such as "believes", "expects", "anticipates", "intends", "plans", "estimates", "should", "likely", or similar expressions, we are making forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Our future results and stockholder values may differ materially from those expressed in the forward-looking statements. Many of the factors that will determine these results and values are beyond our ability of control or predict.

Assumptions relating to budgeting, marketing, and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure, or other budgets, which may in turn affect our business, financial position, results of operations, and cash flows.

RISK FACTORS

THERE IS A SUBSTANTIAL ACCUMULATED DEFICIT AND LIMITED WORKING CAPITAL.

The Company had an accumulated deficit of $(7,704,222) as of December 31, 2000. Since the Company presently has no source of revenues and is committed to continuing its product research and development program, significant expenditures and losses will continue until development of new products is completed and such products have been clinically tested, approved by the FDA and successfully marketed. In addition, the Company has funded its operations primarily through the sale of Company securities, and has had limited working capital for its product development and other activities.

WE HAVE NO CURRENT REVENUES OR PROFITS.

The Company has devoted its resources in recent years to developing a new generation of therapeutic drug products, but such products cannot be marketed until clinical testing is completed and governmental approvals have been obtained. Accordingly, there is no current source of revenues, much less profits, to sustain the Company's present activities, and no revenues will be available until, and unless the new products are clinically tested, approved by the FDA and successfully marketed, an outcome which the Company is not able to guarantee.

IT IS UNCERTAIN THAT THE COMPANY WILL HAVE ACCESS TO FUTURE CAPITAL.

It is not expected that the Company will generate positive cash flow from operations for at least the next several years. As a result, substantial additional equity or debt financing may be required to fund our activities. We cannot assure you that we will be able to consummate any such financing on favorable terms, if at all, or that such financing will be adequate to meet capital requirements. Any additional equity financing could result in substantial dilution to stockholders, and debt financing, if available, may involve restrictive covenants which preclude the Company from making distributions to stockholders and taking other actions beneficial to stockholders. If adequate funds are not available, the Company may be required to delay or reduce the scope of its drug development program or attempt to

continue development by entering into arrangements with collaborative partners or others that may require the Company to relinquish some or all of its rights to proprietary drugs. The inability to fund its capital requirements would have a material adverse effect on the Company.

THE COMPANY IS NOT CERTAIN THAT IT WILL BE SUCCESSFUL IN THE DEVELOPMENT OF ITS DRUG CANDIDATES.

The successful development of any new drug is highly uncertain and is subject to a

number of significant risks. Our drug candidates, which are in a development stage, require significant, time-consuming and costly development, testing and regulatory clearance. This process typically takes several years and can require substantially more time. Risks include, among others, the possibility that a drug candidate will (i) be found to be ineffective or unacceptably toxic, (ii) have unacceptable side effects, (iii) fail to receive necessary regulatory clearances, (iv) not achieve broad market acceptance, (v) be subject to competition from third parties who may market equivalent or superior products, or (vi) be affected by third parties holding proprietary rights that will preclude the Company from marketing a drug product. There can be no assurance that the development of drug candidates will demonstrate the efficacy and safety of a drug candidate as a therapeutic drug, or, even if demonstrated, that there will be sufficient advantages to its use over other drugs or treatments so as to render the drug product commercially viable. In the event that the Company is not successful in developing and commercializing one or more drug candidates, investors are likely to realize a loss of their entire investment.

THE COMPANY WILL FACE INTENSE COMPETITION FROM OTHER COMPANIES IN THE PHARMACEUTICAL INDUSTRY.

The Company is engaged in a segment of the pharmaceutical industry that is highly competitive and rapidly changing. If successfully developed and approved, any of the Company's drug candidates will likely compete with several existing therapies. In addition, other companies are pursuing the development of pharmaceuticals that target the same diseases as are targeted by the drugs being developed by the Company. The Company anticipates that it will face intense and increasing competition in the future as new products enter the market and advanced technologies become available. We cannot assure you that existing products or new products developed by competitors will not be more effective, or more effectively marketed and sold than those by the Company. Competitive products may render the Company's drugs obsolete or noncompetitive prior to the Company's recovery of development and commercialization expenses.

Many of the Company's competitors will also have significantly greater financial, technical and human resources and will likely be better equipped to develop, manufacture and market products. In addition, many of these competitors have extensive experience in preclinical testing and clinical trials, obtaining FDA and other regulatory approvals and manufacturing and marketing pharmaceutical products. A number of these competitors also have products that have been approved or are in late-stage development and operate large, well-funded research and development programs. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and biotechnology companies. Furthermore, academic institutions, government agencies and other public and private research organizations are becoming increasingly aware of the commercial value of their inventions and are actively seeking to commercialize the technology they have developed. Accordingly, competitors may succeed in commercializing products more rapidly or effectively than the Company, which would have a material adverse effect on the Company.

THERE IS NO ASSURANCE THAT THE COMPANY'S PRODUCTS WILL HAVE MARKET ACCEPTANCE.

The success of the Company will depend in substantial part on the extent to which a drug product achieves market acceptance. The degree of market acceptance will depend upon a number of factors, including (i) the receipt and scope of regulatory approvals, (ii) the establishment and demonstration in the medical community of the safety and efficacy of a drug product, (iii) the product's potential advantages over existing treatment methods and (iv) reimbursement policies of government and third party payors. We cannot predict or guarantee that physicians, patients, healthcare insurers or maintenance organizations, or the medical community in general, will accept or utilize any drug product of the Company.

THERE IS UNCERTAINTY AS TO THE AVAILABILITY AND AMOUNTS OF HEALTH CARE REIMBURSEMENT.

The Company's ability to commercialize its technology successfully will depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. Significant uncertainty exists as to the reimbursement status of newly-approved medical products. The Company cannot guarantee that adequate third-party insurance coverage will be available for the Company to establish and maintain price levels sufficient for realization of an appropriate return on its investments in developing new therapies. Government, private health insurers, and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products approved for marketing by the FDA. Accordingly, even if coverage and reimbursement are provided by government, private health insurers, and third-party payors for uses of the Company's products, the market acceptance of these products would be adversely affected if the amount of reimbursement available for the use of the Company's therapies proved to be unprofitable for health care providers.

UNCERTAINTIES RELATED TO HEALTH CARE REFORM MEASURES MAY AFFECT THE COMPANY'S SUCCESS.

There have been a number of federal and state proposals during the last few years to subject the pricing of health care goods and services, including prescription drugs, to government control and to make other changes to U.S. health care system. It is uncertain which legislative proposals will be adopted or what actions federal, state, or private payors for health care treatment and services may take in response to any health care reform proposals or legislation. The Company cannot predict the effect health care reforms may have on its business, and there is no guarantee that any such reforms will not have a material adverse effect on the Company.

FURTHER TESTING OF OUR DRUG CANDIDATES WILL BE REQUIRED AND THERE IS NO ASSURANCE OF FDA APPROVAL.

The FDA and comparable agencies in foreign countries impose substantial requirements upon the introduction of medical products, through lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these requirements typically takes several years or more and varies substantially based upon the type, complexity, and novelty of the product.

The effect of government regulation and the need for FDA approval may be to delay

marketing of new products for a considerable period of time, to impose costly procedures upon the Company's activities, and to provide an advantage to larger companies that compete with the Company. There can be no assurance that FDA or other regulatory approval for any products developed by the Company will be granted on a timely basis or at all. Any such delay in obtaining, or failure to obtain, such approvals would materially and adversely affect the marketing of any contemplated products and the ability to earn product revenue. Further, regulation of manufacturing facilities by state, local, and other authorities is subject to change. Any additional regulation could result in limitations or restrictions on the Company's ability to utilize any of its technologies, thereby adversely affecting the Company's operations.

Human pharmaceutical products are subject to rigorous preclinical testing and clinical trials and other approval procedures mandated by the FDA and foreign regulatory authorities. Various federal and foreign statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of pharmaceutical products. The process of obtaining these approvals and the subsequent compliance with appropriate U.S. and foreign statutes and regulations are time-consuming and require the expenditure of substantial resources. In addition, these requirements and processes vary widely from country to country.

Among the uncertainties and risks of the FDA approval process are the following: (i) the possibility that studies and clinical trials will fail to prove the safety and efficacy of the drug, or that any demonstrated efficacy will be so limited as to significantly reduce or altogether eliminate the acceptability of the drug in the marketplace, (ii) the possibility that the costs of development, which can far exceed the best of estimates, may render commercialization of the drug marginally profitable or altogether unprofitable,

and (iii) the possibility that the amount of time required for FDA approval of a drug may extend for years beyond that which is originally estimated. In addition, the FDA or similar foreign regulatory authorities may require additional clinical trials, which could result in increased costs and significant development delays. Delays or rejections may also be encountered based upon changes in FDA policy and the establishment of additional regulations during the period of product development and FDA review. Similar delays or rejections may be encountered in other countries.

THE COMPANY'S SUCCESS WILL BE DEPENDENT ON LICENSES AND PROPRIETARY RIGHTS IT RECEIVES FROM OTHER PARTIES, AND ON ANY PATENTS IT MAY OBTAIN.

Our success will depend in large part on the ability of the Company and its licensors to (i) maintain license and patent protection with respect to their drug products, (ii) defend patents and licenses once obtained, (iii) maintain trade secrets, (iv) operate without infringing upon the patents and proprietary rights of others and (iv) obtain appropriate licenses to patents or proprietary rights held by third parties if infringement would otherwise occur, both in the U.S. and in foreign countries. The Company has obtained licenses to patents and other proprietary rights from M.D. Anderson and from USC.

The patent positions of pharmaceutical companies, including those of the Company, are uncertain and involve complex legal and factual questions. There is no guarantee that the Company or its licensors have or will develop or obtain the rights to products or processes that are patentable, that patents will issue from any of the pending applications or that claims allowed

will be sufficient to protect the technology licensed to the Company. In addition, we cannot assure you that any patents issued to or licensed by the Company will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive disadvantages to the Company.

Litigation, which could result in substantial cost, may also be necessary to enforce any patents to which the Company has rights, or to determine the scope, validity and unenforceability of other parties' proprietary rights, which may affect the rights of the Company. U.S. patents carry a presumption of validity and generally can be invalidated only through clear and convincing evidence. There can be no assurance that the Company's licensed patents would be held valid by a court or administrative body or that an alleged infringer would be found to be infringing. The mere uncertainty resulting from the institution and continuation of any technology-related litigation or interference proceeding could have a material adverse effect on the Company pending resolution of the disputed matters.

The Company may also rely on unpatented trade secrets and know-how to maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with employees, consultants and others. There can be no assurance that these agreements will not be breached or terminated, that the Company will have adequate remedies for any breach, or that trade secrets will not otherwise become known or be independently discovered by competitors.

THE COMPANY'S LICENSE AGREEMENTS CAN BE TERMINATED IN THE EVENT OF A BREACH.

The license agreements pursuant to which the Company has licensed its core technologies for its potential drug products permit the licensors, respectively M.D. Anderson and USC, to terminate the agreement under certain circumstances, such as the failure by the licensee to use its reasonable best efforts to commercialize the subject drug or the occurrence of any other uncured material breach by the licensee. The license agreements also provide that the licensor is primarily responsible for obtaining patent protection for the technology licensed, and the licensee is required to reimburse it for the costs it incurs in performing these activities. The license agreements also require the payment of specified royalties. Any inability or failure to observe these terms or pay these costs or royalties could result in the termination of the applicable license agreement in certain cases. The termination of any license agreement would have a material adverse effect on the Company.

THE COMPANY'S SUCCESS IS DEPENDENT ON ITS KEY PERSONNEL.

The Company is dependent on a small management group and on independent researchers, some of whom are inventors of the patents licensed to the Company for core technologies and drugs developed at M.D. Anderson and USC, respectively. Scientific personnel may from time to time serve as consultants to the Company and may devote a portion of their time to the Company's business, as well as continue to devote substantial time to the furtherance of the Company's sponsored research at M.D. Anderson, USC and other affiliated institutions as

may be agreed to in the future, but such personnel are not employees of the Company and are not bound under written employment agreements. The services of such persons are important to the Company, and the loss of any of these services may adversely affect the Company.

In addition, to develop and commercialize future drug products, the Company may need to hire and retain a number of additional highly qualified and experienced management, scientific personnel, consultants and advisors. The ability to attract and retain qualified personnel will be critical to the success of the Company. Competition for qualified individuals is intense, and the Company will face competition from numerous pharmaceutical and biotechnology companies, universities and other research institutions. There can be no assurance that the Company will be able to attract and retain such individuals on acceptable terms or at all, and the failure to do so would have a material adverse effect on the Company.

THERE IS NO SALES AND MARKETING CAPABILITY AT THE PRESENT TIME.

The Company does not have marketing or sales personnel. The Company will have to develop a sales force, or rely on marketing partners or other arrangements with third parties for the marketing, distribution and sale of any drug product which is ready for distribution. There is no guarantee that the Company will be able to establish marketing, distribution or sales capabilities or make arrangements with third parties to perform those activities on terms satisfactory to the Company, or that any internal capabilities or third party arrangements will be cost-effective.

In addition, any third parties with which the Company may establish marketing, distribution or sales arrangements may have significant control over important aspects of the commercialization of a drug product, including market identification, marketing methods, pricing, composition of sales force and promotional activities. There can be no assurance that the Company will be able to control the amount and timing of resources that any third party may devote to the products of the Company or prevent any third party from pursuing alternative technologies or products that could result in the development of products that compete with, and/or the withdrawal of support for, the products of the Company.

THERE ARE NO MANUFACTURING CAPABILITIES.

The Company will not have any manufacturing capacity. When required, the Company will seek to establish relationships with third-party manufacturers for the manufacture of clinical trial material and the commercial production of a drug product just as it has with Eprova, AG and Clinalfa AG. There can be no assurance that the Company will be able to establish relationships with third-party manufacturers on commercially acceptable terms or that third-party manufacturers will be able to manufacture a drug product on a cost-effective basis in commercial quantities under good manufacturing practices mandated by the FDA.

The dependence upon third parties for the manufacture of products may adversely affect future costs and the ability to develop and commercialize a drug product on a timely and competitive basis. Further, there can be no assurance that manufacturing or quality control problems will not arise in connection with the manufacture of the drug product or that third party manufacturers will be able to maintain the necessary governmental licenses and approvals to continue manufacturing such products. Any failure to establish relationships with third parties for its manufacturing requirements on commercially acceptable terms would have a material

adverse effect on the Company.

THE COMPANY DOES NOT HAVE ITS OWN RESEARCH FACILITIES AND WILL BE DEPENDENT ON THIRD PARTIES FOR DRUG DEVELOPMENT.

The Company does not have its own research and development facilities and engages consultants and independent contract research organizations to design and conduct clinical trials in connection with the development of a drug. As a result, these important aspects of a drug's development will be outside the direct control of the Company. In addition, there can be no assurance that such third parties will perform all of their obligations under arrangements with the Company or will perform those obligations satisfactorily.

THERE IS NO PRODUCT LIABILITY INSURANCE AND IT IS UNCERTAIN THAT SUCH INSURANCE

CAN BE OBTAINED.

The business of the Company will expose it to potential product liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. There can be no assurance that product liability claims will not be asserted against the Company. The Company intends to obtain limited product liability insurance for its clinical trials when they begin in the U.S. and to expand its insurance coverage if and when the Company begins marketing commercial products. However, there can be no assurance that the Company will be able to obtain product liability insurance on commercially acceptable terms or that the Company will be able to maintain such insurance at a reasonable cost or in sufficient amounts to protect against potential losses. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on the Company.

THE MARKET PRICE OF OUR SHARES IS VOLATILE.

Market prices for the Company's Common Stock and the securities of other medical and biomedical technology companies have been volatile. Factors such as announcements of technological innovations or new products by the Company or its competitors, government regulatory action, litigation, patent or proprietary rights developments, and market conditions for medical and high technology stocks in general can have a significant impact on any future market for the Common Stock.

WE ARE NOT PAYING DIVIDENDS ON OUR COMMON STOCK.

The Company has never paid cash dividends on Common Stock, and does not intend to do so in the foreseeable future.

THE ISSUANCE OF THE SHARES OF PREFERRED STOCK IN THE FUTURE MAY AFFECT COMMON STOCK.

The Company has previously issued shares of Series A Convertible Preferred Stock to overseas investors. In addition, the Board of Directors is authorized, without action by the

stockholders, to issue other shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. Although no such issuance is currently planned, the effect of such issuance in the future may (i) restrict dividends on Common Stock, (ii) dilute the voting power of Common Stock, (iii) impair the liquidation rights of the Common Stock, and (iv) delay or prevent a change in control without further action by the stockholders.

UNDER PROVISIONS OF THE COMPANY'S CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW, THE COMPANY'S MANAGEMENT MAY BE ABLE TO BLOCK OR IMPEDE A CHANGE IN CONTROL.

The Company's Certificate of Incorporation authorizes the Board of Directors (the "Board") to issue shares of undesignated preferred stock without stockholder approval on such terms as the Board may determine. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any such preferred stock that may be issued in the future. Moreover, the issuance of preferred stock may make it more difficult for a third party to acquire, or may discourage a third party from acquiring, a majority of the voting stock. These and other provisions of the Certificate of Incorporation and the by-laws, as well as certain provisions of Delaware law, could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving a change of control of the Company, even if such events could be beneficial to the interest of the stockholders as a whole. Such provisions could limit the price that certain investors might be willing to pay in the future for the Common Stock.

OFFICERS' AND DIRECTORS' LIABILITIES ARE LIMITED UNDER DELAWARE LAW.

Pursuant to the Company's Certificate of Incorporation and by-laws, as authorized under applicable Delaware law, directors are not liable for monetary damages for breach of fiduciary duty, except in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or for any transaction in which a director has derived an improper personal benefit. The Certificate of Incorporation and by-laws provide that the Company must indemnify its officers and directors to the fullest extent permitted by Delaware law for all expenses incurred in the settlement of any actions against such persons in connection with their having served as officers or directors.

ITEM 3. DESCRIPTION OF PROPERTY

The Company's principal office is located at 9948 Hibert St., Suite 100 in San Diego, California, and consists of 1,553 square feet. The office is occupied under a three-year lease expiring on January 14, 2004, at a rental of $33,600 per year.

The Company also has an office handling administration and finance, at 333 N. Sam Houston Parkway, Suite 1035, Houston, Texas, which consists of approximately 800 square feet, occupied pursuant to a lease that expires on October 31, 2001 at a rental of $14,686 per year.

Our research and development activities are conducted mainly on the premises of M.D. Anderson, USC, and Sahlgrenska University Hospital, pursuant to the terms of sponsored research arrangements.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to the Company regarding beneficial ownership of the Common Stock of the Company as of December 31, 2000, of (i) each person who is known to the Company to own of record or beneficially more than five percent (5%) of such Common Stock, (ii) each director and executive officer of the Company (including Biokeys, Inc.) and (iii) all directors and executive officers of the Company (including Biokeys, Inc.) as a group. All share amounts shown here and elsewhere in this registration have been adjusted to reflect a reverse stock split of approximately one for 1.9899 in July 2000.

NAME AND ADDRESS OF BENEFICIAL OWNERS	NUMBER OF SHARES	PERCENT OF CLASS
- Louis R. Reif	201,010(1)	c/o Biokeys Pharmaceuticals, Inc. 333 N. Sam Houston Pkwy, Suite 1035 Houston, Texas 77060
Warren C. Lau	885,797(2)	c/o Biokeys Pharmaceuticals, Inc. 333 N. Sam Houston Pkwy, Suite 1035 Houston, Texas 77060
Nicholas Jon Virca	476,693(3)	c/o Biokeys Pharmaceuticals, Inc. 9948 Hibert Street, Suite 100 San Diego, CA 92131
Robert D. Whitworth	75,380(4)	c/o Biokeys Pharmaceuticals, Inc. 333 N. Sam Houston Pkwy, Suite 1035 Houston, Texas

77060 Francis E. O'Donnell, Jr., M.D. 1,323,646(5) 709 The Hamptons Lane Town & Country, Missouri 63017 Thomas DePetrillo 957,922(6) 988 Centerville Road Warwick, Rhode Island 02886

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(1) Does not include a total of 703,536 shares held by the adult children of Mr. Reif, as trustees of family trusts, as to which Mr.Reif disclaims any voting power or beneficial ownership.

(2) Includes 6,000 shares held by Mr. Lau as custodian for his minor children, as to which he has voting power but disclaims any beneficial ownership.

(3) Includes currently exercisable warrants for the purchase of 144,435 shares.

(4) Includes 25,127 shares held by Croyden Resources, Inc., as to which Mr. Whitworth has sole voting power.

(5) Includes shares held by family trust and children, as to which Dr. O'Donnell has voting power but disclaims any beneficial interest.

(6) Includes warrants held by Mr. DePetrillo to purchase 366,430 shares, currently exercisable, and shares held by family members. Mr. DePetrillo has voting power but disclaims any beneficial interest as to such family- owned shares.

NAME AND ADDRESS OF BENEFICIAL OWNERS NUMBER OF SHARES PERCENT OF CLASS ---- ---------- ---------- ---------- --- ------ ---------- ---------- ------ Matthew Balk 976,275(7) 245 Park Avenue, 44th Floor New York, NY 10167 M. Ross Johnson, Ph.D. 502,538(8) 53524 Bickett Street Chapel Hill, North Carolina 27514 Jonnie R.

Williams				
1,072,085				
1 Starwood Lane Manakin Sabot, VA 23103	All directors and executive officers of the Company (including the directors and executive officers of Biokeys, Inc.) as a group (6 persons)	3,465,064		

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(7) Does not include other shares held by certain adult relatives of Mr. Balk, as to which he disclaims any voting power or beneficial ownership.

(8) Represents currently exercisable warrants.

ITEM 5. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The Board of Directors of Biokeys Pharmaceuticals, Inc. is presently composed of Louis R. Reif, Warren C. Lau, and Robert D. Whitworth. Directors generally serve for one-year terms and until successors are duly elected and qualified.

The Board of Directors of our subsidiary, Biokeys, Inc., is comprised of M. Ross Johnson, Ph.D., Nicholas Jon Virca, Francis E. O'Donnell, Jr., M.D., and Louis R. Reif.

The directors and executive officers of each of Biokeys Pharmaceuticals, Inc. and Biokeys, Inc., and their respective positions and ages as of June 30, 2001, are as follows:

NAME	AGE	POSITION
Louis R. Reif	77	Chairman, Chief Executive Officer and Director of Biokeys Pharmaceuticals, Inc.; Director and Secretary of Biokeys, Inc.
Nicholas Jon Virca	54	President, Chief Executive Officer and Director of Biokeys, Inc.
Warren C. Lau	47	President, Chief Financial

	Officer and Director of Biokeys Pharmaceuticals, Inc.; Chief Financial Officer of Biokeys, Inc.	
M. Ross Johnson, Ph.D.	56	Chairman and Director of Biokeys, Inc.
Francis E. O'Donnell, Jr. M.D.	52	Director of Biokeys, Inc.
Robert D. Whitworth	48	Director and Secretary of Biokeys Pharmaceuticals, Inc.

LOUIS R. REIF is a co-founder of Biokeys Pharmaceuticals, Inc. and has served as its Chief Executive Officer and Chairman and as a member of its Board of Directors since 1996. From 1952 to 1993, Mr. Reif was associated with National Fuel Gas Company, a U.S. natural gas company listed on the New York Stock Exchange. He served as Vice President from 1958 to 1974, President and Chief Executive Officer from 1974 to 1988, a Director from 1966 to 1993, and Chairman of the Board from 1980 to 1993. In 1989, Mr. Reif served as Chief Operating Officer and a Director of Delaware North Companies, a large privately-held company operating food concession businesses at major sports arenas in the U.S. He has served as past Chairman of the American Gas Association and Chairman of the 17th World Gas Conference of the International Gas Union. He is a Trustee-emeritus of the State University of New York. Mr. Reif received a B.A. degree from the University of Buffalo and a J.D. degree from the University of Michigan.

NICHOLAS JON VIRCA has served as President, and a Director of Biokeys, Inc., the Company's wholly-owned subsidiary, since March 1997, becoming Chief Executive Officer in March 2000. From 1991 to 1997, he served as Vice President of Operations, and as a director from 1997 to 1998, of Diametrix Detectors, Inc., a privately-held immunosensor company which he co- founded and which focused on detection of narcotics using monoclonal antibodies. From 1991 to 1994, Mr. Virca also served as Vice President, Business Operations, of IRT Corporation, a publicly-traded company that specialized in x-ray inspection and imaging systems for industrial and security applications. In addition, from 1994 to 1997, Mr. Virca served as Business Unit Manager, Security Products, for Nicolet Imaging Systems, a company that purchased substantially all of IRT's assets in 1994. His earlier employment includes key marketing and general management positions with Fisher Scientific, Damon Biotech, Promega Corporation, the Ortho Division of Johnson & Johnson and the Ross Division of Abbott Laboratories, during which he participated in the commercialization of numerous prescription and OTC pharmaceuticals and biotherapeutic and diagnostic reagents. Mr. Virca received a B.A. degree in biology from Youngstown State University.

WARREN C. LAU is the co-founder of Biokeys Pharmaceuticals, Inc. and has served as its President and as a member of its Board of Directors from June 1996, and Chief Financial Officer of Biokeys, Inc., the Company's wholly-owned subsidiary, since the merger. From November 1997 to September 1998, Mr. Lau served as a director of Immune Complex Corporation and Synthetic Genetics, Inc., privately-held biotechnology companies with which the Company was affiliated during such period. From 1986 to 1996, Mr. Lau was a registered representative of Josephthal, Lyons and Ross, an investment banking and brokerage firm, where he was involved with the underwriting of biotechnology issues.

M. ROSS JOHNSON, PH.D. serves as Chairman and a Director of Biokeys, Inc. From 1996 to 1999, he was President, Chief Executive Officer and member of the Board of Directors of Trimeris, Inc., and, from 1995 to 1996, served as its Chief Scientific Officer and Vice President of Research and Development. Trimeris is engaged in the development of fusion inhibitor technology for antivirals to treat HIV infection. Prior to his service with Trimeris, Dr. Johnson was President and CEO of Parnassus Pharmaceuticals and Vice President of Chemistry

at the Glaxo, Inc. Research Institute in North Carolina, where he was part of the original scientific founding team. Earlier, he served in key scientific and research management positions with Pfizer Central Research. He is Adjunct Professor of Chemistry and Adjunct Professor of Medicinal Chemistry at the University of North Carolina at Chapel Hill. He has authorized or participated in numerous patents, scientific publications and scientific and medical presentations. Dr. Johnson received his B.S. degree in chemistry from the University of California at Berkeley and a Ph.D. degree in organic chemistry from the University of California at Santa Barbara.

FRANCIS E. O'DONNELL, JR., M.D. has served as a director of Biokeys, Inc. (including its predecessor) since1996. He is founder and Managing Partner of Hopkins Capital Group, LLC, a biotech business development company. In his role as Managing Partner for the Hopkins Capital Group, he is actively involved in the management of the portfolio companies: APP Specialty Pharmacy, Photo Vision Pharmaceuticals, BioDelivery Sciences International, Inc., RetinaPharma, Inc., Pen2Net, Inc. and Sublase, Inc. Dr. O'Donnell is the Founder and Managing Partner of Hopkins Biotech Development Corporate (HBDC) which provides biotech company

advertising. Dr. O'Donnell has published over 30 peer-reviewed scientific articles and he has been awarded 22 US patents. He is a 1975 graduate of the Johns Hopkins School of Medicine and former a Professor and Chairman, Department of Opthamology at the St. Louis University School of Medicine in St. Louis, Missouri.

ROBERT D. WHITWORTH has served as a director of Biokeys Pharmaceuticals, Inc. since August, 1998. Mr. Whitworth began his business career in 1976 with Charles Martin, Inc., a petroleum inspection company, and ultimately served as Chief Chemist for Europe, Africa, and the Middle East. In 1979, Mr. Whitworth became Vice President, Logistics and Quality Control, at Hydrocarbon Trading and Transport, Inc., a Houston, Texas, company, which at the time was the largest private supplier of jet fuel in the U.S. From 1989 to 1994, Mr. Whitworth was a Vice President of Croydon Resources, Inc., a provider of crude oil and refined petroleum products for refinery processing. From 1994 to the present, Mr. Whitworth has served as Manager of International Fuel Sales and Operations for Mecury Group, Inc., a jet fuel supplier for the airline industry. Mr. Whitworth is the holder of 22 U.S. and international patents in chemical and petroleum engineering, and is a member of the American Chemical Society, the American Society for Testing and Materials and the International Standards Association. Mr. Whitworth holds a B.S. degree in Chemistry from Southern Methodist University.

ITEM 6. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to each executive officer of Biokeys Pharmaceuticals, Inc. and Biokeys, Inc., for each of the three fiscal years ended December 31, 2000:

------ Annual
Compensation
Awards Payouts
(i) ---

(a) (b) (c) (d)
(e) (f) (g) (h)

------ Name Year Salary Bonus Other Restricted Securities LTIP All and ($) ($) Annual Stock Underlying Payouts Other Principal Compe Award(s) Options/ ($) Compen- Position nsation ($) SARs (#) sation ($) ($) -------
---

Nicholas Jon Virca 2000 30,000(1) President & CEO 1999 Biokeys, Inc. 1998 -----
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- Warren C. Lau 2000 114,000 President 1999 114,000 5,000 Biokeys 1998 94,000 5,000 Pharmaceuticals, Inc. ----------
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Louis R. Reif (2) ----------

Notes: (1) Includes salary only for the last quarter of 2000, during which Biokeys, Inc. was a subsidiary. (2) Mr. Reif has not been paid compensation,

but is reimbursed for actual expenses. -----

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EXECUTIVE EMPLOYMENT AGREEMENTS

The Company has an employment agreement with Warren C. Lau, President of Biokeys Pharmaceuticals, Inc., expiring November 30, 2002. The agreement provides for an annual salary of $114,000, plus cost-of-living increases based on percentage changes in the Consumer Price Index. In the event of a change of control of the Company and a related termination of the employment agreement, Mr. Lau will be entitled to a severance payment equal to one year's salary.

Nicholas Jon Virca, the President and Chief Executive Officer of Biokeys, Inc., does not presently have an employment agreement. He receives a salary of $120,000 per year.

The Company provides health and life insurance coverage for Messrs. Virca and Lau.

ITEM 7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Warren C. Lau, a founder, stockholder, officer and director of Biokeys Pharmaceuticals Inc., is party to an executive employment agreement providing for a salary of $114,000 per year. Nicholas Jon Virca, an officer and director of Biokeys, Inc. and a stockholder of the Company, is paid a salary of $120,000. (See Item 6 above).

Louis R. Reif, a founder, stockholder, officer and director of Biokeys Pharmaceuticals, Inc., is not compensated for his service for the Company, but receives reimbursement of actual expenses incurred in performing services for the Company, including attending meetings and undertaking business trips for the Company. Directors who are not executive officers of the Company are similarly reimbursed, but are not paid a salary.

M. Ross Johnson, a Director and Chairman of Biokeys, Inc., has provided consulting services to the Company from time to time. In consideration of such services, the Company issued warrants to Dr. Johnson in 1999 for the purchase of up to 502,528 shares of Common Stock. From time to time, the Company has also paid Dr. Johnson cash consulting fees which amounted to $15,000 in the aggregate as of December 31, 2000.

Matthew Balk, a principal stockholder of the Company, is affiliated with H.C. Wainwright & Co., Inc., a brokerage and investment banking firm. H.C. Wainwright & Co., Inc. represented the Company in its merger arrangements with Biokeys, Inc., for which the Company agreed to issue 150,000 shares of Common Stock in payment of such services.

ITEM 8. DESCRIPTION OF SECURITIES

The authorized capital stock of Biokeys Pharmaceuticals, Inc. consists of 1,000,000 shares of Preferred Stock, $0.01 par value, and 50,000,000 shares of Common Stock, $0.001 par value.

PREFERRED STOCK

Our Board of Directors is authorized, without action by the stockholders, to issue preferred stock in one or more series. In the year 2000, we issued 3,200 shares of Series A 8% Convertible Preferred Stock, which are currently outstanding, to investors in an overseas private placement offering.

SERIES A 8% CONVERTIBLE PREFERRED STOCK (referred to as the "Preferred Stock")

DIVIDEND RIGHTS. Holders of shares of Preferred Stock are entitled to receive, when, as and if declared by the Company's Board of Directors out of earnings at the time legally available therefor,

dividends at the annual rate of 8% per share, payable semi- annually on June 30 and December 31, pro-rated to the date of original issuance of the shares. Dividends are cumulative and will be payable to holders of record as they appear on our stock books on such record dates as are fixed by the Board of Directors. At the election of the holder, such dividends will be payable in shares and fractional shares of

Preferred Stock, valued for this purpose at the rate of $1,000 per share.

LIQUIDATION PREFERENCE. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the Preferred Stock will have preference and priority over the Common Stock of the Company for payment, out of the assets of the Company or proceeds thereof available for distribution to shareholders, of the sum of $1,000 per share plus all cumulative dividends payable and unpaid thereon to the date of such distribution.

CONVERSION: The shares of Preferred Stock have the following conversion rights:

(i) The Preferred Stock is convertible into Common Stock at the election of the holder. Each share of Preferred Stock is convertible into 250 shares of the Company's Common Stock, which is equal to a conversion price of $4.00 per share.

(ii) The conversion price and ratio will be subject to adjustment for subsequent events such as stock splits, recapitalization, and certain financing. In addition, if within two years after issuance the Company sells Common Stock in a private placement or in a underwritten public offering at a price per share which is less than the conversion price, the Company will issue a sufficient number of additional shares of Common Stock to each holder of Preferred Stock so as to reduce the effective conversion price to the level established in such private placement or public offering; PROVIDED, HOWEVER, that (i) such provisions shall not apply to a specified transaction previously pending between the Company and an institutional investor, (ii) such reduced conversion price shall not be less than $2.50 per share, and (iii) such price adjustment provisions shall not apply to an interim financing of $1,000,000 or less.

REDEMPTION: The Company may call the Preferred Stock for redemption at any time the closing price of Common Stock remains at a level of at least $8.00 per share for a period of at least 20 consecutive trading days. The redemption price will be equal to the liquidation preference plus accrued and unpaid dividends. Also, at any time beginning after July 1, 2003, the Company may call all or any portion of the outstanding Preferred Stock for redemption on at least 30 days notice, at a redemption price equal to 105% of the liquidation preference of such shares, plus all accrued and unpaid dividends. On the effective date fixed for redemption in the redemption notice, the Preferred Stock will cease to be outstanding but conversion rights will be exercisable up until the effective redemption date.

VOTING RIGHTS. The Preferred Stock will have no voting rights, except that the written consent or affirmative vote of the holders of a majority of the outstanding Preferred Stock is required to approve (i) any proposed amendment to the Company's Certificate of Incorporation that would materially alter or change the powers, preferences, or special rights of the Preferred Stock so as to affect the holders adversely, and (ii) any plan of merger or consolidation that contains provisions which, if contained in a proposed amendment to the Company's Certificate of Incorporation, would have entitled the holders of the Preferred Stock to vote, as a class, on the issue.

OTHER SERIES OF PREFERRED SHARES

Of the remaining authorized but unissued shares of preferred stock, our Board of Directors is authorized, without action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges may include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of

shares constituting any series or the designation of any series, all or any of which may be greater than the rights of the Common Stock. We have no present plans to issue any new shares of preferred stock.

COMMON STOCK

As of August 27, 2001, there were 14,652,429 shares of Common Stock issued or issuable which were held of record by approximately 600 stockholders.

The holders of our Common Stock are entitled to one vote per share held of record on all matters submitted to a vote of the stockholders. Our certificate of incorporation does not provide for cumulative voting in the election of directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our Board of Directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. Holders of our Common Stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our Common Stock.

PART II

ITEM 1. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Until December 7, 1999, the Common Stock of Biokeys Pharmaceuticals, Inc. (then known as BioQuest, Inc.) was quoted on the National Association of Securities Dealers (NASD) OTC Bulletin Board under the symbol "HIVX". Since that time, our Common Stock has been quoted in the "Pink Sheets". Trading in the "Pink Sheets" takes place on an irregular basis, and liquidity in this trading market may be variable or non-existent. All prices shown have been adjusted to reflect 1 for 1.989949857 reverse stock split in July 2000. When this registration statement becomes effective, the Company intends to reapply for quotation privileges on the OTC Bulletin Board.

The following represents high and low prices on the OTC Bulletin Board (until December 7, 1999) and thereafter in the Pink Sheets, during the last two years:

QUARTER ENDING	HIGH SALES PRICE	LOW SALES PRICE
December 31, 1998	$0.557	$0.259
March 31, 1999	$0.776	$0.259
June 30, 1999	$0.684	$0.418
September 30, 1999	$0.995	$0.398
December 31, 1999	$0.736	

	$0.239
March 31, 2000	$3.48
	$0.299
June 30, 2000	$3.18
	$0.995
September 30, 2000	$3.90
	$2.25
December 31, 2000	$3.85
	$2.80
March 31, 2001	$5.25
	$2.75
June 30, 2001	$2.90
	$2.10

HOLDERS

The number of record and beneficial holders of our Common Stock as of August 27, 2001 is approximately 600.

TRANSFER AGENT

Biokeys Pharmaceutical's transfer agent is Interwest Transfer Co., Inc., 1981 E. Holladay Road, Suite 100, Salt Lake City, UT 84117.

ITEM 2. LEGAL PROCEEDINGS

The Company is a defendant in an action entitled Karo Bio USA, Inc. vs. Biokeys Pharmaceuticals, Inc., recently commenced in the United States District Court for the District of Delaware. The action alleges infringement of Karo Bio's federal trademark registration for the name "Biokey," based upon their claimed prior use in connection with a particular Karo Bio product, and the use of "Biokeys" in our Company's name. The plaintiff seeks to prevent us from continuing to use "Biokeys" as part of our name, as well as an unspecified amount of damages.

The case is at an early stage and no discovery proceedings have yet taken place. The Company intends to defend the action vigorously.

We do not use the name "Biokeys" to identify any of our drug candidate products and have not marketed, and would not market such products using such identification. Even if the Company were required to cease using the name "Biokeys", which we do not anticipate, we believe that the lawsuit by Karo Bio will not have a material adverse effect on the Company.

ITEM 3. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

None

ITEM 4. RECENT SALES OF UNREGISTERED SECURITIES

From January 1999 to the present, the Company issued and sold the following securities which were not registered under the Securities Act of 1933, as amended. All issuances were undertaken pursuant to exemptions from registration contained in Section 4(2) of the Securities Act of 1933, as amended, or Regulation D promulgated by the Securities and Exchange Commission. Certificates for all securities were appropriately legended with restrictions on sale and transfer of such securities.

In November and December 1999, the Company agreed to sell to four investors a total of 678,412 shares of Common Stock at a price of approximately $0.20 per share for a total of $135,000. Each share was accompanied by a warrant to purchase additional shares of Common Stock at an exercise price of $0.40 per share. In March 2000, these warrants were exercised under a cashless exercise provision, resulting in the issuance of 599,066 shares of Common Stock to the

warrant holders.

From April to June 2000, the Company issued an aggregate of $472,000 principal amount of 8.5% subordinated convertible promissory notes in a private placement offering to accredited investors under Regulation D, made through Company officers and without the assistance of any

placement agent. In accordance with the terms of the notes, the principal amounts of the notes and all accrued interest were converted into shares of Common Stock at a conversion price of $1.19 per share, effective as of the consummation of the Company's merger with Biokeys, Inc. which resulted in the issuance of 412,487 restricted shares to the note holders.

As of October 2000, the Company issued a total of approximately 6,999,990 shares of its Common Stock to the former stockholders of Biokeys, Inc., in accordance with the terms of the Plan and Agreement of Merger between Bioquest, Inc. and Biokeys, Inc.

In October and November, 2000, the Company issued a total of 8,727 shares of Common Stock to a creditor in settlement of various outstanding obligations of Biokeys, Inc., and BioQuest, Inc., which preceded the date of consummation of the merger.

In August and September 2000, the Company sold a total of 3,200 shares of Series A 8% Convertible Preferred Stock to three overseas investors for a total of $3,200,000, and issued to such investors warrants to purchase 400,000 shares of Common Stock at $5.00 per share. Such sale and issuance were conducted in accordance with Regulation S of the Securities and Exchange Commission.

ITEM 5. INDEMNIFICATION OF DIRECTORS AND OFFICERS

As permitted by Section 102(b) (7) of the Delaware General Corporation Law (the "DGCL"), Biokeys Pharmaceutical's Certificate of Incorporation and By Laws eliminate in certain circumstances the liability of directors of Biokeys Pharmaceuticals for monetary damages for breach of their fiduciary duty as directors. This provision does not eliminate the liability of a director: (i) for breach of the director's duty of loyalty to Biokeys Pharmaceuticals or its stockholders; (ii) for acts or omissions by the director not in good faith or which involve intentional misconduct or a knowing violation of the law; (iii) under Section174 of the DGCL; or (iv) for transactions from which the director derived an improper personal benefit. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission.

Subsection (a) of Section 145 of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Subsection (b) of Section 145 of the DGCL empowers a corporation to indemnify any

person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such a person acted in any of the capacities set forth above, against expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall

determine that despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 145 of the DGCL further provides that to the extent a director, officer, employee, or agent of a corporation has been successful in the defense of any action, suit, or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue, or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 of the DGCL shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and empowers the corporation to purchase and maintain insurance on behalf of any person acting in any of the capacities set forth in the second preceding paragraph against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 145 of the DGCL.

The Company's Bylaws require it, under certain circumstances, to indemnify any person who is or was a director or officer against expense (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any threatened, pending or completed action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of Biokeys Pharmaceuticals and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The Bylaws of the Company also provide that expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitle to be indemnified by Biokeys Pharmaceuticals as authorized in the Bylaws.

In addition, the Company has applied for directors' and officers' liability insurance which, if issued, insures against liabilities that directors and officers of Biokeys Pharmaceuticals may incur in such capacities. The risks covered by such policies do not exclude liabilities under the Securities Act.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the day of September, 2001.

BIOKEYS PHARMACEUTICALS, INC.

By

Louis R. Reif, Chairman and Chief Executive Officer

By

Warren C. Lau, President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints LOUIS R. REIF and WARREN C. LAU, or either of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities to sign the Registration Statement of Biokeys Pharmaceuticals, Inc. on Form 10SB, and any and all amendments (including post-effective amendments) to such Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agents or any of them or their or his substitute or substitutes, may unlawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Registration Statement or thereto has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ LOUIS REIF Louis R. Reif	Director	September 26, 2001
/s/ ROBERT D. WHITWORTH Robert D. Whitworth	Director	September 26, 2001
/s/ WARREN C. LAU Warren C. Lau	Director	September 26, 2001

PART F/S

The following financial statements are included herein:

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Consolidated Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Biokeys Pharmaceuticals, Inc.:

We have audited the accompanying consolidated balance sheets of Biokeys Pharmaceuticals, Inc. and subsidiary (formerly BioQuest, Inc.) (a development stage enterprise) (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years then ended, and for the period from inception (June 12, 1996) through December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Biokeys Pharmaceuticals, Inc. and subsidiary (formerly BioQuest, Inc.) (a development stage enterprise) as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, and for the period from inception (June 12, 1996) through December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 11 to the consolidated financial statements, the Company has suffered recurring losses from operations; this fact raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Houston, Texas
June 22, 2001

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Consolidated Balance Sheets

DECEMBER 31,		
Assets	2000	1999
Current assets: Cash and cash equivalents	$ 467,878	58,463
Certificate of deposit	1,016,330	--
Advances to employees	10,500	6,554
Prepaid expenses	71,624	--
Total current assets	1,566,332	65,017
Property and equipment, net (note 4)	6,356	9,243
Goodwill, net of accumulated amortization of $1,900,709 in 2000	13,304,966	--
Other assets	1,180	1,180
Total assets	$ 14,878,834	75,440
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities: Accounts payable and accrued liabilities	$ 67,537	165,082
Accrued salary and related taxes	116,034	

60,605
Accrued dividends payable 85,000 --
Notes payable (note 5) -- 97,718
Sponsored research payable (note 7) -- 845,944
Obligation under license agreement (note 6) -- 139,834
Total current liabilities 268,571 1,309,183
Shareholders' equity (deficit) (notes 1, 6 and 8):
Cumulative convertible preferred stock, $.01 par value, (aggregate involuntary liquidation preference $3,285,000), 1,000,000 shares authorized; issued and outstanding, 3,200 shares in 2000 32 --
Common stock, $.001 par value, 50,000,000 shares authorized; issued and outstanding, 14,586,984 shares in 2000 and 5,859,976 shares in 1999 14,587 5,860
Additional paid-in capital 22,299,866 2,763,535
Deficit accumulated during the development stage (7,704,222) (4,003,138)
Total

shareholders' equity (deficit) 14,610,263 (1,233,743) Commitments and contingencies (notes 6, 7, 11, 12 and 13) ---------- ---------- Total liabilities and shareholders' equity (deficit) $ 14,878,834 75,440 ========== ==========

See accompanying notes to consolidated financial statements.

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Consolidated Statements of Operations

INCEPTION (JUNE 12, 1996) THROUGH DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	2000
Net sales	$ --	$ 174,830
Cost of goods sold	--	51,094
Gross margin	--	123,736
Grant revenue	--	80,338
Interest income	40,922	14,234
	40,922	14,234
	261,079	
Operating expenses:		
Research and development	983,198	351,446
	2,717,544	
General and		

administrative	827,970	708,562	3,437,098
Depreciation and amortization	1,907,341	5,385	1,989,516
Interest expense	23,497	4,326	111,989
Equity in loss of subsidiary	--	--	178,936
Total operating expenses	3,742,006	1,069,719	8,435,083
Loss before cumulative effect of change in accounting principle	(3,701,084)	(1,055,485)	(8,174,004)
Cumulative effect of change in accounting principle	--	(25,821)	--
Net loss	$(3,701,084)	(1,055,485)	(8,199,825)
Loss per common share - basic and diluted (note 10)	$ (0.44)	(0.20)	

See accompanying notes to consolidated financial statements.

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Consolidated Statements of Shareholders' Equity (Deficit)

Inception (June 12, 1996) through December 31, 2000

DEFICIT

	CUMULATIVE CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT	SHARES	AMOUNT			
Balances at June 12, 1996 (date of incorporation)	--	$ --	--	$ --	$ --	$ --	$ --
Sale of common stock without par value	--	--	503	5	5	--	10
Change in par value of common stock	--	--	--	(4)	4	--	--
Issuance of common stock and net liabilities assumed in acquisition	--	--	1,716,132	1,716	3,224	(18,094)	(13,154)
Issuance of common stock	--	--	2,010,111	2,010	456	(2,466)	--
Net loss	--	--	--	--	--	(259,476)	(259,476)
Balances at December 31, 1996	--	--	3,726,746	3,727	3,689	(280,036)	(272,620)
Sale of common stock, net of offering							

costs of $9,976 -- -- 1,004,554 1,004 1,789,975 -- 1,790,979 Issuance of common stock in acquisition - - -- 375,891 376 887,874 - - 888,250 Minority interest deficiency at acquisition charged to the Company - - -- -- -- -- (45,003) (45,003) Net loss -- -- -- -- (1,979,400) (1,979,400) - ---------- -- --------- --- -------- ---- ------- ----- ------ ------ ----- ------- ---- Balances at December 31, 1997 -- - - 5,107,190 5,107 2,681,538 (2,304,439) 382,206 Rescission of acquisition - - -- (375,891) (376) (887,874) 561,166 (327,084) Issuance of common stock at conversion of notes payable -- -- 450,264 451 363,549 -- 364,000 Expense related to stock warrants issued -- -- -- -- 260,000 -- 260,000 Net loss -- - - -- -- -- (1,204,380) (1,204,380) - ---------- -- --------- --- -------- ---- ------- ----- ------ ------ ----- ------- ---- Balances at December 31, 1998 -- - - 5,181,564 5,182 2,417,213 (2,947,653) (525,258)

Sale of common stock (note 8) -- -- 678,412 678 134,322 -- 135,000 Expense related to stock warrants issued (note 8) -- -- -- -- 212,000 -- 212,000 Net loss -- -- -- -- -- (1,055,485) (1,055,485) ---------- ---------- -------- ------- ------ ------ ----- ---- Balances at December 31, 1999 -- -- 5,859,976 5,860 2,763,535 (4,003,138) (1,233,743) Sale of preferred stock, net of offering costs of $76,500 (note 8) 3,200 32 -- -- 3,123,468 -- 3,123,500 Issuance of common stock at conversion of notes and interest payable (note 8) -- -- 412,487 412 492,085 -- 492,497 Issuance of common stock at conversion of notes payable (note 8) -- -- 70,354 70 83,930 -- 84,000 Issuance of common stock to settle obligations (notes 1 and 6) -- -- 495,111 496 1,201,664 -- 1,202,160 Issuance of common stock for acquisition (note 1) -- -- 6,999,990 7,000 9,325,769 -- 9,332,769 Issuance of warrants for

acquisition (note 1)									
				4,767,664					4,767,664
Stock issued for acquisition costs (note 1)				150,000	150				
				487,350					487,500
Expense related to stock warrants issued (note 8)						140,000			140,000
Dividends payable (note 8)						(85,000)			(85,000)
Cashless exercise of warrants (note 8)				599,066	599				
					(599)				
Net loss								(3,701,084)	(3,701,084)
Balances at December 31, 2000				3,200	$ 32	14,586,984	$ 14,587	22,299,866	(7,704,222) 14,610,263

See accompanying notes to consolidated financial statements.

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

INCEPTION (JUNE 12, 1996) THROUGH

DECEMBER 31, 2000	1999	2000
Cash flows from operating activities:		
Net loss	$(3,701,084)	(1,055,485)	(8,199,825)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,907,341	5,385	1,989,516
Expense related to stock warrants issued	140,000	212,000	612,000
Expenses paid by issuance of common stock	211,209	--	211,209
Equity in loss of subsidiary	--	--	178,936
Write-off of license agreement	--	--	152,866
Cumulative effect of change in accounting principle	--	--	25,821
Changes in assets and liabilities, net of effect of acquisitions:		
(Increase) decrease in other assets	(81,382)	11,518	(142,153)
Increase in inventory	--	--	(13,490)
Increase (decrease) in accounts payable and accrued liabilities	(624,376)	67,430	(475,139)
Increase in sponsored research			

payable and license obligation - - 360,419 924,318 ---- ------- ---- ------- ---- ------- Net cash used in operating activities (2,148,292) (398,733) (4,735,941) ---------- ---------- ---------- Cash flows from investing activities: Purchase of certificate of deposit (1,016,330) -- (1,016,330) Purchases of property and equipment (3,745) -- (87,630) Payment on obligation under license agreement -- -- (106,250) Cash acquired in acquisition of subsidiary - - -- 64,233 Payments on note receivable - - 170,000 370,000 Advance to subsidiary - - -- (90,475) Cash transferred in rescission of acquisition -- -- (19,475) Cash received in rescission of acquisition -- -- 230,000 ---- ------- ---- ------- ---- ------- Net cash provided by (used in) investing activities (1,020,075) 170,000 (655,927) -- --------- -- --------- --

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Cash flows from financing activities:

Proceeds from sale of preferred stock 3,200,000 -- 3,200,000

Proceeds from sale of common stock -- 135,000 1,935,965

Payment of financing and offering costs (76,500) -- (98,976)

Payment of notes payable and long-term debt (17,718) -- (67,718)

Proceeds from issuance of notes payable 472,000 80,000 894,718

Principal payments on capital lease obligations -- -- (4,243)

Net cash provided by financing activities 3,577,782 215,000 5,859,746

Net increase in cash and cash equivalents 409,415 (13,733) 467,878

Cash and cash equivalents at beginning of period 58,463 72,196 -- --

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Cash and cash equivalents at end of period $ 467,878 58,463 467,878

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See accompanying notes to consolidated financial statements.

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

(1) DESCRIPTION OF THE COMPANY

Biokeys Pharmaceuticals, Inc., a Delaware corporation, formerly known as BioQuest, Inc. (the Company), is a development stage enterprise which conducts biomedical research and development focused on treatments for cancer and certain viral infections, including HIV. The Company currently does not market any product. Through its license agreements with University of Texas M.D. Anderson Cancer Center (M.D. Anderson) and University of Southern California (USC), the Company has rights to drug candidates in varying early stages of development.

On October 10, 2000, a wholly-owned subsidiary of BioQuest, Inc. merged with Biokeys, Inc. (Biokeys) of San Diego, California (see note 3). BioQuest, Inc. (BioQuest) changed its name to Biokeys Pharmaceuticals Inc. Pursuant to the merger, Biokeys shareholders received 6,999,990 shares of BioQuest common stock, representing 50% of the total common stock of BioQuest outstanding upon consummation of the merger. All previously outstanding Biokeys shares were canceled, and all outstanding Biokeys warrants were replaced with warrants to purchase a total of 1,468,018 shares of Company common stock at $0.49 per share expiring December 15, 2003. A Biokeys liability was settled through the issuance of 8,727 shares of Company common stock. The Company issued 150,000 shares of common stock in payment of certain direct acquisition costs. For financial reporting purposes, the merger was accounted for as a purchase. Biokeys operating activity is included in the Company's consolidated financial statements from the date of the merger.

The Company's shares trade in the over-the-counter market and are quoted in the so-called "pink sheets" under the symbol BKYS.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of Biokeys Pharmaceuticals, Inc. and its wholly-owned subsidiary, Biokeys. All intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

COMMON STOCK

On June 20, 2000, the Company effected a reverse stock split of its common stock of approximately 1.9899 to 1. All share and per-share information included in the accompanying consolidated financial statements and related notes has been adjusted to reflect the stock split.

CASH EQUIVALENTS

Highly liquid investments purchased with original maturities of three months or less are considered to be cash equivalents.

FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, certificate of deposit, advances to employees, and accounts payable are a reasonable estimate of their fair values at the balance sheet dates due to the short-term nature of these instruments.

The Company maintains cash, cash equivalents, and certificates of deposit with banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

GOODWILL

Goodwill (excess of purchase price over fair value of net assets acquired) is being amortized using the straight-line method over two years.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

DEFERRED FINANCING COSTS

Costs associated with arranging debt financing are deferred and amortized using the straight-line method over the term of the notes payable.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are expensed as incurred and include Company-sponsored research and development.

LICENSE AGREEMENTS

Costs of license agreements for patent rights and technology rights that currently have no alternative future uses are expensed as research and development costs.

IMPAIRMENT OF LONG-LIVED ASSETS

In the event that facts and circumstances indicate that property and equipment and intangible or other noncurrent assets may be impaired, an evaluation of the recoverability of currently recorded costs will be made. If an evaluation is required, the estimated value of undiscounted future net cash flows associated with the asset is compared to the asset's carrying value to determine if impairment exists. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

BIOKEYS PHARMACEUTICALS, INC. AND SUBSIDIARY
(Formerly BioQuest, Inc.)

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

INCOME TAXES

Income taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is recognized as a result of the change in the asset or liability during the period.

SUPPLEMENTARY CASH FLOW INFORMATION

Interest of $3,000 and $4,300 was paid during 2000 and 1999, respectively. No income taxes were paid during 2000 and 1999.

Noncash investing and financing transactions excluded from the statements of cash flows for the years ended December 31, 2000 and 1999 are as follows:

2000	1999
Conversion of notes payable and accrued interest into common stock (note 8)	$ 84,000	-
Issuance of common stock to settle obligations (note 6)	1,172,490	-
Issuance of common stock for acquisition (note 1)	9,332,769	-
Issuance of warrants for acquisition (note 1)	4,767,664	-
Acquisition liability settled with stock (note 1)	29,670	-
Issuance of common stock for direct costs of acquisition (note 1)	487,500	-
Warrants issued for consulting		

services (note 8)	140,000	212,000
Cashless exercise of warrants (note 8)	599	-
Dividends payable (note 8)	85,000	-
Issuance of common stock at conversion of notes and interest payable (note 8)	492,497	-
Acquisition of Biokeys, Inc.:		
Other assets	5,812	-
Current liabilities	582,260	-

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS (SFAS 141). SFAS 141 eliminates the pooling of interests method of accounting and requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The Company does not expect the adoption of SFAS 141 to have a material impact on its business because it currently has no planned or pending acquisitions.

The FASB has also issued Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142), which will be effective for the Company as of January 1, 2002. SFAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires that the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. Adoption of SFAS 142 will result in the elimination of annual amortization expense related to goodwill; however, because of the extensive effort needed to comply with this statement, the impact of related impairment, if any, on our financial position or results of operations has not been determined.

(3) ACQUISITION OF BIOKEYS, INC.

On October 10, 2000, the Company merged with Biokeys, Inc. (see note 1). The cost of the acquisition has been allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed. This allocation resulted in goodwill of $15,205,675 which is being amortized using the straight-line method over two years. In connection with the

acquisition, net liabilities were assumed by the Company as follows:

Other assets	$ 5,812
Current liabilities	(582,260)
	$ (576,448)

In addition, the Company issued warrants to purchase 103,904 shares of Company common stock to settle Biokeys, Inc. obligations valued at $113,406. The fair value of these warrants was included in the purchase price.

The following unaudited pro forma results of operations for the years ended December 31, 2000 and 1999 have been prepared as though the merger occurred January 1, 1999. This pro forma information is not necessarily indicative of any future results of the Company.

2000	1999
Interest income	$ 40,922	14,234
Operating expenses	(5,945,469)	(1,546,460)
Net loss	$ (5,904,547)	(1,532,226)
Loss per common share	$ (0.42)	(0.13)
Weighted average number of common shares outstanding	14,027,144	12,183,437

(4) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2000 and 1999 were as follows:

USEFUL LIVES	2000	1999

Office furniture and equipment	5 years	$ 13,420	13,420
Computer software and equipment	3 years	11,845	8,100
		25,265	21,520
Less accumulated depreciation and amortization		(18,909)	(12,277)
		$ 6,356	9,243

(5) NOTES PAYABLE

At December 31, 1999, the Company had overdue unsecured promissory notes payable to investors in the principal amounts of $80,000 and $17,718, bearing interest at 8% and 12% per annum, respectively. The notes had original maturity dates of November 30, 1999 and July 31, 1999, respectively, but the investors agreed to forbear any action to collect the notes in 1999. The two notes were paid in full, including accrued interest, during 2000. The $80,000 note and accrued interest were converted to common stock (see note 8). The $17,718 note and accrued interest were repaid with cash.

(6) LICENSE AGREEMENTS

M.D. ANDERSON

Pursuant to a patent and technology license agreement dated June 14, 1996 between M.D. Anderson and the Company (the M.D. Anderson License Agreement), the Company acquired a license to seven patents and patent applications related to technology for HIV/AIDS therapy and prevention. Under the M.D. Anderson License Agreement, the Company is obligated to pay M.D. Anderson for all out-of-pocket expenses incurred in filing, prosecuting, enforcing and maintaining the licensed patent rights and all future patent-related expenses paid by M.D. Anderson as long as the M.D. Anderson License Agreement remains in effect.

The M.D. Anderson License Agreement was amended effective June 15, 2000 (the Amendment). The Amendment incorporated additional licensed subject matter, revised certain royalty rates due to M.D. Anderson upon commercialization, and settled past due patent and research and development amounts from the Company to M.D. Anderson. The Company gave consideration valued at approximately $172,000 through the issuance of 71,555 shares of common stock to reimburse M.D. Anderson for patent costs incurred through June 15, 2000. The Company also issued 414,829 shares of common stock to M.D. Anderson valued at $1,000,000, based on the market value of the

Company's stock at the date of the settlement agreement, to settle past due research and development obligations. In addition, the Company committed to funding at least $1,000,000 of research and development activity through December 31, 2001, including the amounts referred to in note 7. Finally, the Amendment defined a milestone payment due to M.D. Anderson upon the enrollment of the first patient in the first Phase I trial of any product that utilizes licensed subject matter.

Under the amended M.D. Anderson License Agreement, the Company has the right to a royalty-bearing, exclusive license to manufacture, have manufactured, and use and/or sell licensed products. M.D. Anderson's retained interest consists of royalties on net sales of licensed products and a share of consideration received by the Company from all sublicenses and assignments. No royalties were paid under this agreement during the years ended December 31, 2000 and 1999. The M.D. Anderson License Agreement continues in effect until all patent rights have expired.

USC

Under an Option and License Agreement with USC dated January 23, 1998, amended August 16, 2000, Biokeys acquired license rights to a total of three patents, two relating to Biokeys' CoFactor product and one relating to Selone, both of which are intended for use in connection with cancer chemotherapy. In addition, under a second Option and License Agreement dated August 17, 2000, Biokeys acquired rights under four patents related to its Thiovir anti-viral technologies. These agreements with USC (the USC License Agreements) grant Biokeys exclusive worldwide licenses to study, use, manufacture and market drug products covered by the subject patents. Under the USC

License Agreements, Biokeys is obligated to pay USC for out-of-pocket expenses incurred in filing, prosecuting, enforcing and maintaining the licensed patent rights and all future patent-related expenses paid by USC as long as the USC License Agreements remain in effect and until the patent rights have expired. USC's retained interest consists of royalties on net sales of licensed products and a share of consideration received by Biokeys from all sublicenses and assignments. No royalties have been paid under this agreement. The USC License Agreements continue in effect until all patent rights have expired.

(7) SPONSORED RESEARCH

Since September 1996, the Company has entered into a total of four Sponsored Research Agreements (SRAs) with M.D. Anderson. Under the SRAs, M.D. Anderson agreed to conduct specific research activities for the Company, at the expense of the Company, into various aspects of treating HIV infections using technologies made available under the M.D. Anderson License Agreement. All amounts due to M.D. Anderson under the first three SRAs were paid or settled as of December 31, 2000, and such SRAs have been terminated. The most recent SRA with M.D. Anderson, entered into September 7, 2000, provides for studies to test the ability of a mixture of synthetic HIV derived peptides to elicit an antibody-negative cell mediated immune response. The testing will seek to determine if this immune response can protect against new infection and if the preparation can be administered after HIV infection as a therapeutic. This SRA requires a total of $814,490 payable in two equal installments for research to be conducted through 2001 and into 2002. The first installment was paid by the Company in 2000 and the second in 2001.

Biokeys has entered into an SRA with USC under which USC will continue studies in the therapeutic potential of Thiovir and its analogues as anti-viral agents. The Company has entered into a grant agreement with USC effective November 1, 2000, under which USC will perform research into Thiovir and its analogues as inhibitors for HPV and other pathogenic viruses. The budgeted research costs for this study are approximately $217,000, which sum has been paid and expensed by the Company in 2000.

(8) EQUITY TRANSACTIONS

In August 1999, the Company borrowed $80,000 from two investors who had previously purchased common stock. The notes issued to the investors were due in November 1999 and carried interest at an annual rate of 8%. The Company issued warrants to purchase 40,202 shares of common stock at $0.49 per share to the investors as part of the same transaction. The notes, which were due November 30, 1999, were repaid in March 2000 through the conversion of principal and interest into common stock at $1.19 per share and the issuance of additional warrants to purchase 40,202 shares of common stock at $0.49 per share.

In November and December 1999, the Company agreed to sell to four investors a total of 678,412 shares of its common stock at a price of approximately $0.20 per share for a total of $135,000. Each share was accompanied by a warrant to purchase shares of common stock at an exercise price of $0.40 cents per share. The warrants were exercised in March 2000 under a provision permitting cashless exercise, with 599,066 shares being issued to the holders as a result of such exercise.

Beginning in April 2000, the Company sold an aggregate of $472,000 principal amount of 8.5% subordinated convertible promissory notes in a private placement offering to accredited investors. The principal amounts of the notes, together with accrued interest of $20,497, was converted into shares of common stock at a conversion price of $1.19 per share, effective as of the consummation of the merger between the Company and Biokeys.

In a private placement offering to European investors pursuant to Regulation S of the Securities and Exchange Commission, the Company sold a total of 3,200 shares of its Series A 8% Convertible Preferred Stock for gross proceeds of $3,200,000 between August and September 2000. In addition to the shares of Series A Convertible Preferred Stock, which are convertible into common stock at $4.00 per share, the offering included warrants to purchase a total of 400,000 shares of common stock at $5.00 per share. The preferred stock has a liquidation preference of $1,000 per share plus accrued and unpaid dividends, carries cumulative dividends at 8% per annum payable semi-annually, and provides for future adjustments in conversion price if specified dilutive events take place. At December 31, 2000, dividends payable totaled $85,000 or $27 per share. The preferred stock is redeemable at the option of the Company at any time the closing price of common stock remains at a level of at least $8 per share for 20 consecutive days if the Company is listed on the American Stock Exchange or NASDAQ at such time, with the redemption price being equal to the liquidation preference. In addition, at any time after July 1, 2003, the Company may call all of any portion of the outstanding preferred stock for redemption on at least 30 days notice, at a redemption price equal to 105% of the liquidation preference plus all accrued and unpaid dividends. The Company incurred consulting fees totaling $76,500, paid to a stockholder who acted as a finder and agent in this transaction.

In May 2000, the Company issued warrants to two of its research scientists for the purchase of a total of 100,506 shares of common stock. The fair value of the warrants on the date of issue, $140,000, has been recorded as a noncash research and development expense. The warrants are exercisable at $0.49 per share and expire in May 2003. No such warrants have been exercised as of December 31, 2000.

In June 1999, the Company issued warrants to a key consultant to purchase 502,528 shares of common stock. The fair value of these warrants on the date of issue, $212,000, has been recorded as a noncash general and administrative expense. The warrants are exercisable at $0.49 per share and expire in June 2006. No such warrants have been exercised as of December 31, 2000.

In September 1998, the Company issued warrants to several consultants for

the purchase of an aggregate of 670,875 shares of common stock. The warrants are exercisable at $0.49 per share and expire in September 2005. No such warrants have been exercised as of December 31, 2000.

In conjunction with the acquisition of Biokeys as discussed in note 1, all outstanding Biokeys warrants were replaced with warrants to purchase a total of 1,468,018 shares of the Company's common stock at $0.49 per share that expire December 15, 2003.

At December 31, 2000, there were outstanding warrants to purchase a total of 3,222,331 shares of common stock as follows:

EXERCISE PRICE	WARRANTS	EXPIRATION DATE
$ 0.49	80,404	August 2002
0.49	100,506	May 2003
4.00	400,000	August 2003
0.49	1,468,018	December 2003
0.49	670,875	September 2005
0.49	502,528	June 2006

(9) INCOME TAXES

Significant components of income tax expense for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Deferred tax benefit	$ 487,617	284,064
Increase in valuation allowance for		

deferred tax assets	
(487,617)	(284,064)
Income tax expense	
$ -- --	

The tax effects of temporary differences that give rise to deferred tax assets at December 31, 2000 and 1999 are as follows:

2000	1999
Net operating loss carryforward	
$ 2,642,171	967,556
Organization costs and license agreement, due to differences in amortization	
39,055	44,538
Total deferred tax assets	
2,681,226	1,012,094
Less valuation allowance	
(2,681,226)	(1,012,094)
Net deferred tax assets	
$ -- --	

At December 31, 2000, the Company had an unused net operating loss carryforward of approximately $7,771,000 for tax reporting purposes, which expires in 2111 through 2112 and 2118 through 2120. Included in the 2000 carryforward is a net operating loss carryforward acquired from Biokeys, Inc. of approximately $3,475,000.

(10) NET LOSS PER COMMON SHARE

The computation of basic and diluted net loss per share for the years ended December 31, 2000 and 1999 is as follows:

2000	1999
Numerator:	
Net loss	$(3,701,084)	(1,055,485)
Less preferred stock dividends	(85,000)	--
Numerator for basic and diluted loss per share	$(3,786,084)	(1,055,485)
Denominator for basic and diluted loss per share - weighted average shares	8,582,707	5,183,447
Loss per common share - basic and diluted	$ (0.44)	(0.20)

Net loss per common share is calculated according to Statement of Financial Accounting No. 128, EARNINGS PER SHARE, using the weighted average number of shares of common stock outstanding during the period. At December 31, 2000 and 1999, 4,022,331 and 1,253,807 potentially dilutive shares, respectively, and were not included in the computation of net loss per common share - diluted, as their effect would have been antidilutive due to the Company's net loss incurred in 2000 and 1999.

(11) OPERATIONAL STATUS

The accompanying consolidated financial statements have been prepared on a going-concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred losses since inception and had net losses of $3,701,084 and $1,055,485 for the years ended December 31, 2000 and 1999, respectively.

To date, the Company has been principally engaged in licensing and research and development efforts. The Company has no current revenues, is not marketing any products, and projects a loss from operations for 2001. The Company will require additional capital, which it intends to obtain through equity and debt offerings and/or strategic partnership in order to continue to operate its business. The Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in operating a new business, particularly since the Company will focus on research, development and unproven technology which may require a lengthy period of time and substantial

expenditures to complete. Even if the Company is able to successfully develop new products or technologies, there can be no assurance that the Company will generate sufficient revenues from the sale or licensing of such products and technologies to be profitable. Management believes that the Company's ability to meet its obligations as they become due and to continue as a going concern through December 2001 are dependent upon obtaining additional financing.

(12) COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, the Company may become subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are not predictable with assurance. Management is not aware of any pending or threatened lawsuit or proceeding that would have a material adverse effect on the Company's financial position, liquidity or results of operations.

OPERATING LEASES

The Company has operating leases for office space and equipment. Rent expense was $23,522 and $19,099 during the years ended December 31, 2000 and 1999, respectively. A lease for office space expired in November 2000 and was renewed for an additional one-year term.

(13) SUBSEQUENT EVENTS

In January 2001, the Company entered into a one-year consulting agreement with an individual who will serve as a medical director and provide assistance for anticipated applications to the U.S Food and Drug Administration. The consulting agreement provides for fees of $42,000.

BIOKEYS, INC.

Financial Statements

September 30, 2000 and December 31, 1999

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
BioKeys, Inc.:

We have audited the accompanying balance sheets of BioKeys, Inc. (the Company) as of September 30, 2000 and December 31, 1999, and the related statements of operations, shareholders' equity (deficit), and cash flows for the nine months ended September 30, 2000 and the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the Company's outstanding common stock and warrants were acquired in October 2000 in a business combination accounted for as a purchase.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioKeys, Inc. as of September 30, 2000 and December 31, 1999, and the results of its operations and its cash flows for the nine months ended September 30, 2000 and the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 11 to the financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Houston, Texas
March 16, 2001

BIOKEYS, INC.

Balance Sheets

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
Assets		
Current assets - cash and cash equivalents	$ --	11,135
Property and equipment, net (note 3)	--	520
Other assets	5,812	--
Total assets	$ 5,812	11,655
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 102,982	325,791
Due to BioQuest, Inc.	494,722	--
Accrued salaries		97,962
Total	107,902	

current liabilities 695,666 433,693
Notes payable (note 4) -- 617,673
Total liabilities 695,666 1,051,366
Commitments and contingencies (notes 5, 10 and 11)
Shareholders' equity (deficit) (notes 4 and 7):
Preferred stock, $0.01 par value, 1,000,000 shares authorized; issued and outstanding zero shares in 2000 and 250,000 shares in 1999 -- 2,500
Common stock, $0.001 par value, 25,000,000 shares authorized; issued and outstanding 6,330,320 shares in 2000 and 4,858,440 shares in 1999 6,330 4,858
Additional paid-in capital 5,461,787 3,348,500
Accumulated deficit (6,157,971) (3,895,569)
Preferred shareholder note receivable -- (500,000)
Total shareholders' equity (deficit) (689,854) (1,039,711)
Total liabilities

and shareholders' equity (deficit)	$ 5,812 11,655

See accompanying notes to financial statements.

BIOKEYS, INC.

Statements of Operations

	NINE MONTHS ENDED SEPTEMBER 30, 2000	YEAR ENDED DECEMBER 31, 1999
Operating expenses:		
Research and development	$ 220,470	154,183
General and administrative (note 7)	2,087,356	323,918
Total operating expenses	2,307,826	478,101
Extraordinary income - gain on forgiveness of debt (note 9)	45,424	--
Net loss	$(2,262,402)	(478,101)
Loss per common share - basic and diluted (note 2)	$ (0.45)	(0.10)
Weighted average number of common shares outstanding	5,021,982	4,858,440

See accompanying notes to financial statements.

BIOKEYS, INC.

Statements of Shareholders' Equity (Deficit)

Nine months ended September 30, 2000
and year ended December 31, 1999

	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	SHAREHOLDER NOTE RECEIVABLE	ACCUMULATED EQUITY (DEFICIT)	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balances at December 31, 1998	250,000	$ 2,500	4,858,440	$ 4,858	3,348,500	(3,417,468)	(500,000)	(561,610)
Net loss	--	--	--	--	--	--	(478,101)	(478,101)
Balances at December 31, 1999	250,000	2,500	4,858,440	4,858	3,348,500	(3,895,569)	(500,000)	(1,039,711)
Conversion of preferred stock to common stock (note 4)	(250,000)	(2,500)	1,000,000	1,000	1,500	--	500,000	500,000
Issuance of common stock at								

conversion of notes payable (note 4) -- -- 471,880 472 235,468 -- -- 235,940 Expense related to stock warrants issued (note 7) -- -- -- -- 1,876,319 -- -- 1,876,319 Net loss -- -- -- -- -- (2,262,402) -- (2,262,402) ---------- - --------- -- -------- --- ------- ---- ------ ----- ----- ------ ---- ------- --- Balances at December 31, 2000 -- $ -- 6,330,320 $ 6,330 5,461,787 (6,157,971) -- (689,854) ========== ========== ========== ========== ========== ========== ========== ==========

See accompanying notes to financial statements.

BIOKEYS, INC.

Statements of Cash Flows

NINE MONTHS ENDED YEAR ENDED SEPTEMBER 30, DECEMBER 31, 2000 1999 ------- ---- ------- ---- Cash flows from operating activities: Net loss $(2,262,402) (478,101) Adjustments to reconcile net loss to net cash used in operating activities: Extraordinary

gain on forgiveness of debt (45,424) -- Depreciation 520 3,386 Expense related to stock warrants issued 1,876,319 -- Changes in assets and liabilities: Increase in other assets (5,812) -- Decrease in deposits -- 3,910 Increase (decrease) in accounts payable and accrued liabilities (177,385) 1,000 Increase in due to BioQuest, Inc. 494,722 -- Increase (decrease) in accrued salaries (9,940) 100,323 ---- ------- ---- ------- Net cash used in operating activities (129,402) (369,482) -- --------- -- --------- Cash flows from financing activities - proceeds from issuance of notes payable 118,267 317,716 ---- ------- ---- ------- Net decrease in cash and cash equivalents (11,135) (51,766) Cash and cash equivalents, beginning of period 11,135 62,901 ----- ------ ----- ------ Cash and cash equivalents, end of period $ -- 11,135

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See accompanying notes to financial statements.

BIOKEYS, INC.

Notes to Financial Statements

September 30, 2000 and December 31, 1999

(1) DESCRIPTION OF THE COMPANY

BioKeys, Inc. (BioKeys or the Company) was organized as a corporation in the State of Delaware in November 1997, and was formed to develop biotechnology. BioKeys' business strategy is to develop leading-edge medical research, currently being conducted at leading universities and research institutes throughout the world, into commercial medical products. Business opportunities BioKeys has identified include the development of a vaccine for use in cancer chemotherapy and the development of an effective oral anti-AIDS drug.

In October 2000, the Company was acquired by BioQuest, Inc. (BioQuest) of Houston, Texas. Company shareholders received 6,999,990 shares of BioQuest common stock, an aggregate amount equal to 50% of the total common stock of BioQuest outstanding immediately after the transaction. All outstanding BioKeys warrants were replaced with warrants to purchase BioQuest common stock at $0.49 per share that expire December 15, 2003 (see note 4). The terms further specified that BioQuest change its name to Biokeys Pharmaceuticals, Inc. and that BioKeys, Inc. become a wholly-owned subsidiary. For financial reporting purposes, the acquisition transaction was accounted for as a purchase.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

CASH EQUIVALENTS

Highly liquid investments purchased with original maturities of three months or less are considered to be cash equivalents. There were no cash equivalents at September 30, 2000 and December 31, 1999.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

RESEARCH AND DEVELOPMENT COSTS

All research and development costs are expensed as incurred, including Company-sponsored research and development (see note 6).

BIOKEYS, INC.

Notes to Financial Statements

September 30, 2000 and December 31, 1999

LICENSE AGREEMENTS

Costs of license agreements for patent rights and technology rights that currently have no alternative future uses are expensed as research and development costs.

IMPAIRMENT OF LONG-LIVED ASSETS

In the event that facts and circumstances indicate that property and equipment and intangible or other noncurrent assets related to specifically acquired assets may be impaired, an evaluation of the recoverability of currently recorded costs will be made. If an evaluation is required, the estimated value of undiscounted future net cash flows associated with the asset is compared to the asset's carrying value to determine if a write-down to fair value is required. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of these assets exceeds the fair value of the assets.

INCOME TAXES

Income taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is recognized as a result of the change in the asset or liability during the period.

NET LOSS PER COMMON SHARE

Net loss per common share - basic is calculated according to Statement of Financial Accounting (SFAS) No. 128, EARNINGS PER SHARE, using the weighted average number of shares of common stock outstanding during the period. At September 30, 2000 and December 31, 1999, 1,227,825 and 710,000 potentially dilutive shares, respectively, relating to outstanding warrants were not included in the computation of net loss per common share - diluted, as their effect would have been antidilutive due to the Company's net loss incurred for the nine months ended September 30, 2000 and the year ended December 31, 1999.

SUPPLEMENTARY CASH FLOW INFORMATION

No interest expense or income taxes were paid during the nine months ended September 30, 2000 or the year ended December 31, 1999.

Noncash investing and financing transactions excluded from the statement of cash flows for the nine months ended September 30, 2000 are as follows:

Conversion of notes payable into common stock (note 4)	$ 235,940
Payment of shareholder note receivable with offset of notes payable (note 4)	500,000

(3) PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2000 and December 31, 1999 were as follows:

USEFUL LIVES	2000	1999
Computer equipment	3	

years	$
10,157	
10,157	Less accumulated depreciation
(10,157)	
(9,637)	
$	--
520	

(4) NOTES PAYABLE

At December 31, 1999, notes payable consisted of advances from investors and related parties for operating purposes. This debt was non-interest bearing. During the nine months ended September 30, 2000, additional advances totaling $118,267 were received by the Company.

During September 2000, advances totaling $235,940 were converted into 471,880 shares of common stock at a conversion price of $0.50 per share. An additional $500,000 of outstanding advances were used toward the payment of the preferred shareholder note receivable. The preferred stock was simultaneously converted to 10,000 shares of common stock at a conversion rate of four shares of common stock for every share of preferred stock.

(5) LICENSE AGREEMENT

Under an Option and License Agreement with the University of Southern California (USC) dated January 23, 1998, amended August 16, 2000, BioKeys acquired license rights to a total of three patents, two relating to BioKeys' CoFactor product and one relating to Selone, both of which are intended for use in connection with cancer chemotherapy. In addition, under a second Option and License Agreement dated August 17, 2000, BioKeys acquired rights under four patents related to its Thiovir anti-viral technologies. These agreements with USC (the USC License Agreements) grant BioKeys exclusive worldwide licenses to study, use, manufacture and market drug products covered by the subject patents. Under the USC License Agreements, BioKeys is obligated to pay USC for out-of-pocket expenses incurred in filing, prosecuting, enforcing and maintaining the licensed patent rights and all future patent-related expenses paid by USC as long as the USC License Agreements remain in effect and until the patent rights have expired. USC's retained interest consists of a running royalty on net sales of licensed products and a share of consideration received by BioKeys from all sublicenses and assignments. No royalties have been paid under this agreement.

(6) RESEARCH AGREEMENT

On November 17, 1997, BioKeys entered into a Research Agreement (RA) with USC.

The RA will involve further studies in the therapeutic potential of particular anti-AIDS agents. The RA will involve the following objectives: (1) acquire initial in vitro data relating to the potential use of an oral anti-AIDS drug with other HIV and/or CMV inhibitor drugs as part of a combination therapy; (2) conduct additional research into other potential applications of the oral anti-AIDS drug; (3) conduct additional research into other proprietary compounds related to the oral anti-AIDS drug; (4) transfer to the Company technology related to the oral anti-AIDS drug family of compounds; and (5) continue to patent findings.

(7) WARRANTS

In exchange for consulting services, in September 2000, the Company issued warrants with a fair value of $1,876,319 to purchase 517,825 shares of common stock. These transactions have been reported as a

noncash general and administrative expense in the accompanying 2000 statement of operations.

In conjunction with 1997 and 1998 private placements of common stock, the Company issued warrants to purchase 710,000 shares of common stock.

In conjunction with the acquisition of BioKeys in October 2000 (see note 1), all outstanding Company warrants were exchanged for warrants to purchase common stock in Biokeys Pharmaceuticals, Inc. (New Warrants). The New Warrants expire December 15, 2003 and have an exercise price of $0.49 per share of common stock.

(8) INCOME TAXES

Significant components of income tax expense for the nine months ended September 30, 2000 and the year ended December 31, 1999 are as follows:

2000	1999
Deferred tax benefit	$ 129,568	159,154
Increase in valuation allowance for deferred tax assets	(129,568)	(159,154)
Income tax expense	$ -	-

The tax effects of temporary differences that give rise to deferred tax assets at September 30, 2000 and December 31, 1999 are as follows:

2000	1999
Net operating loss carryforward	$ 1,181,515	1,051,947
Less valuation allowance	(1,181,515)	(1,051,947)
Net deferred tax assets	$ -	-

At September 30, 2000, BioKeys had an unused net operating loss carryforward of approximately $3,475,000 for tax reporting purposes which expires in 2112 and 2118 through 2120.

(9) EXTRAORDINARY INCOME

During 2000, the Company negotiated reductions in certain payables. Payables of $228,175 were settled with a cash payment of $182,751, and $45,424 was recognized as forgiveness of debt. The forgiveness of debt is reflected as an extraordinary item in the accompanying 2000 statement of operations.

(10) CONTINGENCIES

In the normal course of business, the Company may become subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are not predictable with assurance. Management is not aware of any pending or threatened lawsuit or proceeding that would have a material adverse effect on the Company's financial position, liquidity or results of operations.

(11) OPERATIONAL STATUS

The accompanying financial statements have been prepared on a going-concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred losses since inception and had net losses of $2,262,402 and $478,101 for the nine months ended September 30, 2000 and the year ended December 31, 1999, respectively.

Through September 30, 2000, the Company has been principally engaged in licensing and research and development efforts. The Company has no current revenues and is not marketing any products. Before the acquisition of the Company by BioQuest, Inc. in October 2000 (see note 1), the Company projected a loss from operations for the remainder of 2000 and for 2001. Following the acquisition, the combined Company will require additional capital, which it intends to obtain through equity and debt offerings and/or strategic partnership, in order to continue to operate its business. The combined Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in operating a new business, particularly since the combined Company will focus on research, development and unproven technology which may require a lengthy period of time and substantial expenditures to complete. Even if the combined Company is able to successfully develop new products or technologies, there can be no assurance that the combined Company will generate sufficient revenues from the sale or licensing of such products and technologies to be profitable. Management believes that the combined Company's ability to meet its obligations as they become due and to continue as a going concern through December 2001 are dependent upon obtaining additional financing.

PART III

ITEM 1. INDEX TO EXHIBITS

Exhibit Number	DESCRIPTION
2.1	Agreement and Plan of Merger dated May 19, 2000 among BioQuest, Inc.; BioQuest Acquisition Corp.; and Biokeys, Inc.
3.1	Certificate of Amendment of Certificate of Incorporation of BioQuest, Inc. - October 12, 2000
3.2	Certificate of Amendment of Certificate of Incorporation of

	BioQuest, Inc. - October 12, 2000
3.3	Certificate of Merger of BioQuest Acquisition Corp. into Biokeys, Inc. - October 12, 2000
3.4	Certificate of Incorporation of BioQuest Acquisition Corp. -
3.6	May 19, 2000 Amended and Restated Bylaws of Biokeys Pharmaceuticals, Inc.
4.1	Certificate of Designation of BioQuest, Inc. - September 11, 2000
10.1	Patent and Technology License Agreement with M.D. Anderson - June, 1996 (Request for confidential treatment of certain data)
10.2	Amendment to M.D. Anderson Licensing Agreement June 15, 2000 (Request for confidential treatment of certain data)
10.3	Option and License Agreement with USC - June 23, 1998 (Co Factor and Selone) (Request for confidential treatment of certain data)
10.4	Amendment to Option and License Agreement with USC dated August 16, 2000 (Co Factor and Selone) (Request for confidential treatment of certain data)
10.5	Option and License Agreement with USC dated August 17, 2000 (Thiovir) (Request for confidential treatment of certain data)
10.6	Employment Agreement with Warren C. Lau
11.1	Statement Regarding Computation of Per Share Earnings
21.1	Subsidiaries of the Registrant
24.1	Powers of Attorney (included on signature pages)

Exhibit 2.1

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

BIOQUEST, INC.,

BIOQUEST ACQUISITION CORP.

AND

BIOKEYS, INC.

TABLE OF CONTENTS

EXHIBITS

SCHEDULES

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "Agreement") dated as of May 19, 2000 among BIOQUEST, INC., a Delaware corporation ("BioQuest"), BIOQUEST ACQUISITION CORP., a Delaware corporation ("Merger Sub") and BIOKEYS, INC., a Delaware corporation ("Biokeys").

W I T N E S S E T H:

WHEREAS, Merger Sub is a newly formed, wholly owned subsidiary of BioQuest; and

WHEREAS, the Boards of Directors of BioQuest, Merger Sub and Biokeys deem it advisable and in the best interests of each corporation and their respective shareholders that BioQuest and Biokeys combine their businesses in order to advance the long-term business interests of BioQuest and Biokeys; and

WHEREAS, the combination of BioQuest and Biokeys shall be effected by the terms of this Agreement through a transaction in which Merger Sub will merge with and into Biokeys, Biokeys will become a wholly-owned subsidiary of BioQuest and the stockholders of Biokeys will become stockholders of BioQuest; and

WHEREAS, for federal income tax purposes, the parties to this Agreement intend, by approving resolutions authorizing this Agreement, to adopt this Agreement as a plan of reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, and that the merger of Merger Sub with and into Biokeys shall qualify as a reorganization within the meaning of Section 368(a)(1)(a) of the Code.

NOW, THEREFORE, in consideration of the mutual premises, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

I. THE MERGER

1.01 THE MERGER. (a) Subject to the provisions of this Agreement and in accordance with the Delaware General Corporation Law (the "DGCL"), Merger Sub shall be merged with and into Biokeys (the "Merger"). As a result of the Merger, (i) the outstanding shares of capital stock of Merger Sub and of Biokeys shall be converted, canceled and replaced in the manner provided in Section 1.03 of this Agreement; (ii) the separate corporate existence of Merger Sub shall cease; and (iii) Biokeys shall be the surviving corporation (the "Surviving Corporation") in the Merger and shall become a wholly-owned subsidiary of BioQuest.

(b) As soon as practicable after satisfaction of, or, to the extent permitted hereunder,

written waiver of all conditions to the Merger set forth herein,Biokeys and

Merger Sub will file a certificate of merger (the "Certificate of Merger") with the Delaware Secretary of State and make all other filings or recordings required by the DGCL in connection with the Merger. The Merger shall become effective at such time (the "Effective Time") as the Certificate of Merger is duly filed with the Delaware Secretary of State (or at such later time as may be agreed in writing by the parties hereto and specified in the Certificate of Merger).

(c) From and after the Effective Time, the separate existence of Merger Sub shall cease, and the Surviving Corporation shall be a wholly-owned subsidiary of BioQuest and possess all the rights, powers, privileges and franchises and be subject to all of the obligations, liabilities, restrictions and disabilities of Biokeys and Merger Sub, all as provided under the DGCL.

(d) It is intended that the Merger shall qualify as a "reorganization" within the meaning Section 368(a)(1)(a) of the Code.

1.02 PRELIMINARY ACTIONS. Immediately prior to the Effective Time:

(a) BioQuest shall take such actions and complete such corporate proceedings as are necessary (including, without limitation, a reverse stock split or combination of its shares) so as to cause it to (i) have 14,000,009 shares of BioQuest Common Stock, $0.001 par value, issued and outstanding, of which 6,999,990 shares shall have been issued to Merger Sub to be used as consideration for the cancellation and exchange of outstanding shares of Biokeys as set forth below, and 7,000,009 shares shall be held by all other stockholders of BioQuest (ii) outstanding warrants and options for the purchase of not more than 1,526,090 shares of BioQuest Common Stock; and no other outstanding shares (or options, warrants, or other rights to purchase any such shares) of any kind.

(b) Biokeys shall take such actions and complete such corporate proceedings as are necessary (including, without limitation, a stock split or division or distribution of its shares) so as to cause it to have (i) 6,999,990 shares of Biokeys Common Stock, $0.01 par value ("Biokeys Common Stock"), issued and outstanding, (ii) outstanding warrants and options for the purchase of not more than 1,525,090 shares of Biokeys Common Stock; and no other outstanding shares of any kind.

(c) Merger Sub shall have 100 shares of its Common Stock issued and outstanding, all of which shall be owned by BioQuest.

1.03. CONVERSION OF CAPITAL STOCK BY MERGER. As of the Effective Time, by virtue of the Merger and without any further action on the part of BioQuest, Merger Sub, Biokeys or any stockholder of any of such corporations:

(a) CAPITAL STOCK OF MERGER SUB. Each of the 100 issued and outstanding shares of the capital stock of Merger Sub shall be converted into and become one fully paid and nonassessable

share of common stock, $0.01 par value, of Biokeys as the Surviving Corporation.

(b) EXCHANGE OF BIOQUEST SHARES FOR BIOKEYS SHARES. Each issued and outstanding share of Biokeys Common Stock (other than the 100 shares issued in accordance with Section 1.03(a)) shall be converted into the right to receive one (1) fully paid and nonassessable share of Common Stock, $0.001 par value, of BioQuest ("BioQuest Common Stock"). Each share of Biokeys Common Stock issued and outstanding at the Effective Time (other than the shares issued pursuant to Section 1.03(a)) shall cease to be outstanding, and shall be cancelled and retired and shall cease to exist, and each holder of certificates representing such shares (the "Biokeys Certificates") shall cease to have any rights with respect thereto, except the right to receive BioQuest Common Stock therefor upon the surrender of such certificates in accordance with this Section 1.03 and Section 1.04. All shares of BioQuest Common Stock issued upon the surrender for exchange of Biokeys Common Stock in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Biokeys Common Stock, and there shall be no further registration of transfers on the stock transfer books of Biokeys. If, after the Effective Time, Biokeys Certificates are presented to Biokeys for any reason, they shall be canceled and exchanged as provided in this Section 1.03 and in Section 1.04.

(c) CANCELLATION OF TREASURY STOCK. Each share of Biokeys Common Stock held by Biokeys as treasury stock prior to the Effective Time shall automatically be canceled and retired and shall cease to exist, and no shares of BioQuest Common Stock or other consideration shall be delivered in exchange therefor.

(d) OPTIONS AND WARRANTS. Biokeys shall have 1,525,090 outstanding

options and warrants for the purchase of shares of Biokeys Common Stock outstanding immediately prior to the Effective Time ("Biokeys Options"). The Biokeys Options shall, from and after the Effective Time, be exercisable at a price of $0.49 per share, for the purchase of the same number of shares of BioQuest Common Stock as the number of Biokeys Options. BioQuest shall have 1,526,090 outstanding options and warrants for the purchase of shares of BioQuest Common Stock outstanding immediately prior to the Effective Time ("BioQuest Options"). The BioQuest Options shall, from and after the Effective Time, be exercisable at a price of $0.49 per share, for the purchase of the same number of shares of BioQuest Common Stock. The parties shall take such actions as may be necessary to ensure that the holders of such Biokeys Options will receive, upon the due exercise thereof, the proper number of shares of BioQuest Common Stock pursuant to the provisions of this Section 1.03 and 1.04.

1.04. EXCHANGE OF CERTIFICATES. (a) Promptly after the Effective Time, BioQuest and/or its transfer agent will send to each holder of shares of Biokeys Common Stock at the Effective Time a letter of transmittal for use by such holder in the exchange of share certificates. Each holder of shares of Biokeys Common Stock that have been converted into the right to receive the Merger Consideration will be entitled to receive, upon surrender to BioQuest of such holder's Biokey's certificate, a new certificate for shares of BioQuest Common Stock. Until so surrendered, each such Biokeys Certificate shall, after the Effective Time, represent for all purposes only the right to receive

BioQuest Common Stock. Upon surrender to BioQuest or BioQuest's transfer agent of the Biokeys Certificates by holders of Biokeys Common Stock for cancellation, together with any other required documents, each such holder shall received BioQuest Common Stock issuable in the Merger. No Biokeys Certificates for shares of BioQuest Common Stock shall be delivered to any Biokeys stockholders who have objected to the Merger and have asserted appraisal rights under applicable provisions of the DCGL.

(b) After the Effective Time, there shall be no further registration of transfers of shares of Biokeys Common Stock. If, after the Effective Time, Biokeys Certificates are presented to BioQuest, they shall be canceled and exchanged for the consideration provided for and in accordance with the procedures set forth, in this Section.

1.05. LOST CERTIFICATES. If any Biokeys Certificates shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Biokeys Certificate to be lost, stolen or destroyed and, if required by BioQuest, the posting by such person of a bond, in such reasonable amount as BioQuest may direct, as indemnity against any claim that may be made against BioQuest and Merger Sub with respect to such Biokeys Certificate, BioQuest will issue in exchange for such lost, stolen or destroyed Biokeys Certificate shares to be paid in respect of the shares of Biokeys Common Stock represented by such Biokeys Certificates as contemplated by this Article.

1.06. THE CLOSING. The closing for the merger (the "Closing") shall be held beginning at 10:00 a.m. on June 15, 2000 (the "Closing Date"), or such other date and time specified by BioQuest to Biokeys on five days' notice, but in no event later than July 5, 2000. The closing shall occur at a location to be determined by BioQuest, Merger Sub and Biokeys.

1.07. STOCKHOLDER APPROVAL AND VOTING OF SHARES. The actions set forth in this Article I shall be conditioned upon the approval by the stockholders of BioQuest and the stockholders of Biokeys of this Agreement, as set forth in Section 5.02 below. By their signatures to this Agreement, the principal stockholders of BioQuest and the principal stockholders of Biokeys agree to vote their respective shares of BioQuest and Biokeys in favor of the approval of this Agreement and to cause BioQuest and Biokeys, respectively, to take the actions necessary in order to permit the completion of the transactions contemplated by this Agreement.

II. THE SURVIVING CORPORATION

2.01. CERTIFICATION OF INCORPORATION AND BYLAWS. At the Effective Time: (i) the separate existence of Merger Sub shall cease and Merger Sub shall be merged with and into Biokeys; (ii) the Certificate of Incorporation of Merger Sub as in effect immediately prior to the Effective Time shall be the Certificate of Incorporation of the Surviving Corporation; and (iii) the Bylaws of Merger Sub as in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation. Merger Sub and Biokeys are sometimes referred to herein as the "Constituent Corporations."

2.02. SURVIVING CORPORATION. From and after the Effective Time; (i) the Surviving Corporation shall possess all the rights, privileges, immunities, powers and purposes of each of the Constituent Corporations; (ii) all the property, real and personal, including subscriptions to shares, causes of action and every other asset of each of the Constituent Corporations, shall vest in the Surviving Corporation without further act or deed; (iii) the Surviving Corporation shall assume and be liable for all the liabilities, obligations and penalties of each of the Constituent Corporations; and (iv) the Merger shall have the further effects set forth in this Agreement and in the DGCL.

2.03. DIRECTORS AND OFFICERS; INSURANCE. (a) From and after the Effective Time, and at least until the next annual meeting of stockholders of BioQuest and until their successors are duly elected or appointed and shall qualify, the Board of Directors of BioQuest shall consist of nine (9) members, four (4) of whom shall be designated by the Board of Directors of Biokeys as such Biokeys Board exists immediately prior to the Effective Time, and four (4) of whom shall be designated by the Board of Directors of BioQuest as such BioQuest Board exists immediately prior to the Effective Time. The ninth director shall be chosen by the members of the Board of BioQuest constituted immediately after the Effective Time. Concurrently with the designation of four directors by the Board of Directors of BioQuest, as such Board exists immediately prior to the Effective Time, any director serving on the Board of BioQuest prior to the Effective Time, who is not one of the four directors designated by the Board of Directors of BioQuest, shall submit his resignation. For purposes hereof, the names of the Biokeys directors intended to be designated by Biokeys and the names of the BioQuest directors intended to be designated by Bioquest, known as of the date of this Agreement, are set forth in SCHEDULE 2.03(A). The principal stockholders of BioQuest and the principal stockholders of Biokeys are agreeing, by their signatures to a separate Agreement Among Stockholders described in Section 5.13, to vote their shares, and to take such other action necessary so as to constitute a Board of Directors of BioQuest as described in this Section 2.03. In addition, the Surviving Corporation shall have a board of directors constituted in a like manner.

(b) From and after the Effective Time, and until successor are duly appointed by and qualified in accordance with applicable law, the officers of the Surviving Corporation shall be as set forth in SCHEDULE 2.03(B).

(c) Notwithstanding the foregoing, if any person designated to hold office as a director or officer under the preceding provisions of this section 2.03 declines to serve because BioQuest has not yet obtained directors and officers liability insurance, the position which such person is intended to fill may remain vacant until such insurance is obtained, but not beyond six (6) months past the Effective Time (it being understood that such person may elect to serve in such position even in the absence of such insurance).

III. REPRESENTATIONS AND WARRANTIES OF BIOKEYS

Biokeys represents and warrants to BioQuest and Merger Sub, and BioQuest and Merger Sub are relying materially thereon in entering into this Agreement, as follows:

3.01. ORGANIZATION AND QUALIFICATION. Biokeys is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has full power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, except for such failures to have such power and authority which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect (as defined in this Section 3.01) on Biokeys, as the case may be. Biokeys is duly qualified, licensed or admitted to do business and is in good standing in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed or admitted and in good standing which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on Biokeys. As used in this Agreement, a "Material Adverse Effect" shall mean a material adverse effect on the businesses, properties, assets, liabilities, condition (financial or otherwise) or results of operations of an entity (or group of entities taken as a whole). Notwithstanding the foregoing, a Material Adverse Effect shall not include any change in political or economic matters of general applicability. Biokeys does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

3.02. CORPORATE RECORDS. The copies of the Certificate of Incorporation and By-laws of Biokeys, as amended to date and annexed hereto as SCHEDULE 3.02, are true and complete copies of such documents as now in effect. The minute books of Biokeys as presented for inspection by BioQuest are accurate and complete in all material respects.

3.03. CAPITALIZATION. (a) The authorized capital stock of Biokeys consists of 25,000,000 shares of Common Stock, $0.01 par value, of which 6,300,395 shares are issued and outstanding as of the date hereof. Except as set forth in SCHEDULE 3.03(A), there is no other authorized class, series or unit of securities of any kind (whether or not convertible into Common Stock), and there are no options, warrants or rights of any kind, evidencing a proprietary interest (or permitting a third party to obtain a proprietary interest) in Biokeys. None of the shares of Biokeys have been issued in a manner giving rise to claims for violation of the securities laws of any jurisdiction.

(b) Except as contemplated hereby, there are no outstanding contractual obligations of Biokeys to repurchase, redeem or otherwise acquire any shares of Biokeys or to grant, extend or enter into any option with respect thereto.

(c) There are no debt obligations of Biokeys of any nature whatsoever, and as of the Closing Date, Biokeys will not have any debt, liabilities, obligations or contingent liabilities of any

nature whatsoever, except as set forth on SCHEDULE 3.03(C).

(d) All of Biokeys' shares are fully paid, duly and validly issued and owned of record and beneficially by the stockholders; and in the amounts, listed in SCHEDULE 3.03(D).

3.04. BOOKS AND RECORDS. The books and records of Biokeys are true, accurate and complete in all material respects.

3.05. SUBSIDIARIES AND INVESTMENTS. Except as disclosed on Schedule 3.05, Biokeys does not own, directly or indirectly, any capital stock or other equity or ownership or proprietary interest in any other corporation, partnership, association, trust, joint venture or other entities.

3.06. AUTHORITY RELATIVE TO THIS AGREEMENT. Biokeys has full corporate power and authority to enter into this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Biokeys and the consummation by Biokeys of the Merger and the transactions contemplated hereby have been duly and validly approved by the Board of Directors of Biokeys. No other corporate proceedings on the part of Biokeys, other than stockholder approval as set forth in this Agreement, are necessary to authorize the execution, delivery and performance of this Agreement by Biokeys and the consummation by Biokeys of the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Biokeys, and constitutes a legal, valid and binding obligation of Biokeys enforceable against Biokeys in accordance with its terms.

3.07. NON-CONTRAVENTION; APPROVALS AND CONSENTS. (a) The execution and delivery of this Agreement by Biokeys does not, and the performance by Biokeys of its obligations hereunder and the consummation of the transactions contemplated hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in, or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any lien on any of the assets or properties of Biokeys under any of the terms, conditions or provisions of (x) the Certificate of Incorporation or By-laws of Biokeys, (y) any laws or orders of any governmental or regulatory authority applicable to Biokeys or any of its assets or properties, or (z) any contracts to which Biokeys is a party or by which Biokeys or any of its assets or properties is bound, excluding from the foregoing clauses (y) and (z) conflicts, violations, breaches, defaults, terminations, modifications, accelerations and creations and impositions of liens, which individually or in the aggregate, would not be reasonably expected to have a Material Adverse Effect on Biokeys or on its ability to consummate the transactions contemplated by this Agreement.

(b) Except (x) for the filing of a Certificate of Merger and other appropriate merger documents required by the DGCL with the Secretary of State of Delaware and appropriate documents with the relevant authorities of other states in which Biokeys is qualified to do business, and (y) as disclosed in SCHEDULE 3.07(B) hereto, no consent, approval, or action of, filing with or notice to any governmental or regulatory authority or other public or private third party is necessary

or required under any of the terms, conditions or provisions of any law or order of any governmental or regulatory authority or any contract to which Biokeys is a party or by which Biokeys or any of its assets or properties is bound for the execution and delivery of this Agreement by Biokeys, the performance by Biokeys of its obligations hereunder or the consummation of the transactions contemplated hereby, except for such consents, approvals or actions of, filing with or notices to any governmental or regulatory authority or other public or private third party the failure of which to make or obtain could not reasonably be expected to have a Material Adverse Effect on Biokeys or on Biokeys' ability to consummate the transactions contemplated by this Agreement.

3.08. FINANCIAL STATEMENTS. To the best knowledge of Biokeys, the Biokeys financial statements attached as SCHEDULE 3.08 fairly present the financial condition, assets, liabilities, stockholders equity and results of operations of Biokeys for the periods indicated on such statements.

3.09. ABSENCE OF UNDISCLOSED LIABILITIES. Except for matters reflected or reserved against in Biokeys Balance Sheets included in Biokeys Financial Statements, Biokeys did not have at such date and has not incurred since that date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature, except liabilities or obligations which were incurred in connection with this Agreement and the transactions contemplated hereby or in the ordinary course of business consistent with past practice.

3.10. ABSENCE OF SALES AND CUSTOMERS. Biokeys is a development stage company engaged in biopharmaceutical research and development and has no sales or customers.

3.11. CONTRACTS. Except as set forth in SCHEDULE 3.11, (a) Biokeys has made available for examination by BioQuest copies of all material contracts, agreements and other instruments of Biokeys;

(b) All such contracts, agreements and other instruments are valid, binding and enforceable in accordance with their terms and are in full force and effect;

(c) To the best of its knowledge after reasonable inquiry, Biokeys is not in default, and no condition or event exists or has occurred that, with notice or lapse of time or both, would become a default under any such contract, agreement or instrument;

(d) Biokeys has not made or entered into any warranties or guarantees with respect to products manufactured or sold by Biokeys, except warranties implied by law;

(e) Biokeys has received no notice of any default or alleged default under any such contract, agreement or instrument which has not heretofore been cured or which notice has heretofore been withdrawn and does not know of any material default thereunder by any other party thereto or by any other person bound thereunder; and

(f) Biokeys is not a party to, nor bound by, nor are any of its properties subject to, any

agreement, contract or commitment which involves $1,000 or more and is not cancelable without penalty within 30 days, or any agreement, contract or commitment which might reasonably be expected to have a material adverse effect on its business.

3.12. NO MATERIAL RESTRICTIONS. Except as set forth in SCHEDULE 3.12, Biokeys is not party or subject to any charter provision, by-law, mortgage, lien, lease, license, permit, agreement, contract, instrument, law, rule, ordinance, regulation, order, judgment or decree, or any other restriction of any kind or character, which (a) is reasonably expected to have a Material Adverse Effect, or (b) would prevent consummation of the transactions contemplated by this Agreement or the continued operation of its business after the Closing Date on substantially the same basis as heretofore operated, or (c) would materially restrict the ability of to conduct the business of Biokeys in substantially the same manner as it is currently conducted.

3.13. TITLE TO ASSETS. Except as set forth in SCHEDULE 3.13, Biokeys

holds good and marketable title to its assets, free and clear of all adverse claims, liens, mortgages, charges, security interests, shared ownership, encumbrances or restrictions. There are no outstanding options, calls, commitments, or other plans or agreements of any character providing for the purchase, sale or other disposition of any of such assets, other than as contemplated by this Agreement.

3.14. RELATED PARTY TRANSACTIONS. Except as set forth in SCHEDULE 3.14, Biokeys has not made any loans to any officer, director, shareholder or employee outstanding on the date of this Agreement, nor entered into any agreement or arrangement with any such person, or with a parent, child, spouse or sibling of such person, in which such person or any of such relatives has a material direct or indirect economic interest in such arrangement or agreement, other than compensation arrangements in keeping with the usual and customary practices of Biokeys.

3.15 COMPENSATION OF EMPLOYEES. Set forth in SCHEDULE 3.15 is an accurate and complete list showing the names of all persons employed by Biokeys in any capacity, their respective titles, job descriptions and dates of hire, and setting forth the present compensation (including salary and bonus and fringe benefits) of each such person. Biokeys has no employees other than those set forth in SCHEDULE 3.15.

3.16 EMPLOYEE RELATIONS. (a) Biokeys is in compliance, in all material respects, with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and has not and is not engaged in any unfair labor practice;

(b) No unfair labor practice complaint against Biokeys is pending before the National Labor Relations Board or any other judicial or administrative body;

(c) Biokeys has not experienced any material labor difficulty during the last three years; and

(d) No claim of discrimination or harassment is pending or threatened before the Equal

Employment Opportunity Commission or any other judicial or administrative body.

3.17. LEGAL PROCEEDINGS. There are no actions, suits, arbitrations, or proceedings pending, nor to the knowledge of Biokeys, threatened against, relating to or affecting, Biokeys or any of its assets and properties which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on Biokeys or on the ability of Biokeys to consummate the transactions contemplated by this Agreement. Biokeys is not subject to any judgment, decree, court order or writ of any governmental or regulatory authority.

3.18. ENVIRONMENTAL COMPLIANCE. To the best of its knowledge after reasonable inquiry, Biokeys has at all times complied with and not violated any federal, state or local environmental laws, and the Biokeys facilities have not been used to receive, handle, store, treat, ship or otherwise dispose of hazardous material except in compliance with all applicable environmental, health or safety statutes, ordinances, orders, rules, regulations or requirements. There are no proceedings pending against Biokeys with respect to the enforcement of any such laws, and, to the knowledge of Biokeys after reasonable inquiry, no hazardous material has been released into the environment or deposited, discharged, placed or disposed of at, on or near Biokeys' facilities, nor has Biokeys used its facilities been used at any time by any person as a landfill or a waste disposal site. Biokeys knows of no fact or circumstance that would reasonably be expected to give rise to any future civil, criminal or administrative proceedings against them under any environmental laws.

3.19. INSURANCE. Set forth in SCHEDULE 3.19 is a true, correct and complete listing of all insurance policies or binders of insurance which relate to Biokeys' business and assets. Except as set forth in such Schedule:

(a) the coverage under each such policy and binder is in full force and effect, and no notice of cancellation or non-renewal with respect to, or disallowance of any claim under, any such policy or binder has been received;

(b) there are no programs of self-insurance relating to Biokeys' business;

(c) there are no pending or unpaid claims under any such

insurance policy; and

(d) no event has occurred which reasonably might form the basis of any claim against Biokeys covered by any of the policies or binders set forth in the Schedule or which would reasonably be expected to increase materially the insurance premiums payable under any such policy or binder.

3.20. INTELLECTUAL PROPERTY. (a) SCHEDULE 3.20(A) contains a complete and accurate list of all Intellectual Property (as defined below) owned by, licensed to or otherwise used by Biokeys. Biokeys owns, or possesses valid licenses to use, all Intellectual Property necessary for the operation of its business as it is operated as of the date of this Agreement. Except as otherwise set forth in such Schedule, each item of Intellectual Property (i) has been maintained and used in accordance with

applicable law, (ii) is transferable to BioQuest through the Merger in accordance with the terms of this Agreement, (iii) has not been infringed by any other person, (iv) is not subject to any lien or encumbrance and (v) each license agreement is valid and binding and is not considered in default. Except as set forth in SCHEDULE 3.20(A), neither any Intellectual Property nor any right therein has been assigned to a third party.

(b) Except as otherwise indicated in SCHEDULE 3.20(B), each item of Intellectual Property, to the extent practicable, has been duly registered or recorded with, or is protected by applications filed with the appropriate governmental agency, to the extent required, and each such registration, recording, and filing remains in full force and effect.

(c) Except as set forth in SCHEDULE 3.20(C), no claim adverse to the interests of Biokeys in the Intellectual Property rights or agreements listed in such Schedule which is reasonably expected to have a material adverse effect on its business has been made or threatened. To the knowledge of Biokeys, no person has infringed or otherwise violated Biokeys right in any of the Intellectual Property or agreements listed in SCHEDULE 3.20(C). Except as set forth on SCHEDULE 3.20(C), no litigation is pending wherein Biokeys is accused of infringing or otherwise violating the Intellectual Property right of another, or of breaching a contract conveying rights under Intellectual Property, and, to the knowledge of Biokeys, no such claim has been asserted or threatened against Biokeys nor are there any facts that would give rise to such a claim.

(d) Each current and former employee of Biokeys has assigned to Biokeys all of such employee's rights to, and benefits to be derived from, each item of Intellectual Property developed by such employee while employed by Biokeys.

(e) Except as set forth in SCHEDULE 3.20(E), the Intellectual Property is free from known material defects and substantially conforms to the applicable specifications and documentation of such Intellectual Property.

(f) SCHEDULE 3.20(F) sets forth a list of all Internet domain names used by Biokeys in its business (collectively, the "Domain Names"). Biokeys has, and after the Closing the Surviving Corporation will have, a valid registration and all material rights (free of any material restriction) in and to the Domain Names, including, without limitation, all rights necessary to continue to conduct Biokeys' business as it is currently conducted, subject only to a successful challenge to the Biokeys' registration of a Domain Name by the third party owner of the registered United States trademark that corresponds to the Domain Name.

(g) To the knowledge of Biokeys, none of Biokeys' officers, employees, consultants, distributors, agents or representatives have on their own behalf entered into any agreement regarding know-how, trade secrets, assignment of rights in inventions, or prohibition or restriction of competition or solicitation of customers, or any other similar restrictive agreement or covenant, whether written or oral, with any Person other than Biokeys during the period in which such officer, employee, consultant, agent or representative was employed with or engaged by Biokeys.

(h) For purposes of this Agreement, the term "Intellectual Property" shall mean (i) all research practice and protocols, products, tools, computer programs, specifications, source code, object code, graphics, devices, techniques, algorithms, methods, processes, procedures, packaging, formulae, drawings, designs, improvements, discoveries, concepts, user interfaces, the "look and feel" of any software or web sites, software, software development and

other tools, content, data inventions (whether or not patentable or copyrightable and whether or not reduced to practice), designs, logos, themes, know-how, and other technology that are now or are currently proposed to be developed, produced, used, marketed or sold by Biokeys; and (ii) all proprietary rights in this provision (h)(i), including, without limitation, all: (1) domain names; (2) trade names, trademarks, service marks, logos, brand names and other identifiers, with respect only to the goods and services on which they are currently used by Biokeys; (3) trade secrets,(4) copyrights and (5) domestic and foreign letters patent, and the registrations, applications, renewals, extensions and continuations (in whole or in part) thereof, together with all goodwill associated with the Intellectual Property.

3.21. BANK ACCOUNTS AND POWERS OF ATTORNEY. SCHEDULE 3.21 lists the name of each bank, savings and loan, or other financial institution, in which Biokeys has an account, including cash contribution accounts or safe deposit boxes, the names of all persons authorized to draw thereon or to have access thereto, and the names of any persons holding powers of attorney with respect to its business of Biokeys.

3.22. CORPORATE AND FICTITIOUS NAMES. Except as disclosed in SCHEDULE 3.22, (i) Biokeys has not been known by or used any other corporate or fictitious name and (ii) Biokeys has full right to the use of its name, free from any claim of infringement by any person.

3.23. ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as set forth in SCHEDULE 3.23, since February 18, 2000, the date of the Letter of Intent (the "Letter of Intent") between BioQuest and Biokeys, Biokeys has conducted its operations and business only in the ordinary course and has not:

(a) suffered either any Material Adverse Effect with respect to its financial condition, results of operations or business or any other event or condition of any character that might reasonably be expected to have a Material Adverse Effect on its business or prospects, including any liability, loss, damage or expense outside the ordinary course of business;

(b) suffered any loss or prospective loss of one or more dealers, suppliers or customers, or altered any contractual arrangement with any one or more of its dealers, suppliers or customers, the loss or alteration of which, either individually or in the aggregate, would have a Material Adverse Effect;

(c) made any capital expenditure or commitments for the acquisition or construction of any single item of property, plant or equipment in excess of $1,000;

(d) amended or terminated any lease, contract or material commitment to which Biokeys is a party;

(e) entered into any transaction not in the ordinary course of business or otherwise inconsistent in any respect with the past practices or conduct of its business of Biokeys;

(f) sold any accounts receivable, disposed of any inventories other than in the ordinary course of business or accrued any liabilities not in the ordinary course of business;

(g) changed any material accounting principle, material procedure or material practice followed by Biokeys;

(h) incurred any indebtedness for borrowed money;

(i) created, assumed or permitted to exist any lien, pledge, security interest, encumbrance or mortgage of any kind on any of the assets;

(j) acquired the securities or substantially all of its assets of any other entity;

(k) merged or consolidated with any entity;

(l) established or agreed to establish any pension, retirement, profit-sharing, deferred compensation or other employee benefit or welfare plan for the employees of Biokeys;

(m) entered into any employment or similar contract with any officer or employee, or granted any bonuses or salary increases to any officer or employee except for normal cost-of- living escalations related to increases in the Consumer Price Index;

(n) amended in any material respect or terminated any plan or agreement concerning employee benefits or compensation or made awards or distributions under any such plan or agreement;

(o) entered into any material contract (including but not limited to assignments, licenses, transfers of exclusive rights, "work for hire" agreements, special commissions, employment contracts, purchase orders, sales orders, mortgages and security agreements) which (A) contain a grant or other transfer, whether present, retroactive, prospective, or contingent, by it of any rights in any Intellectual Property, or (B) contain a promise made by or to it to pay any lump sum or royalty or other payment or consideration with respect to the acquisition, practice or use of any Intellectual Property.

3.24. COMPLIANCE WITH LAWS AND ORDERS. Except as disclosed on SCHEDULE 3.24, to the best of its knowledge after reasonable inquiry, Biokeys holds all permits, licenses, variances, exemptions, orders and approvals of all governmental and regulatory authorities necessary for the lawful conduct of its business (the "Biokeys Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on Biokeys. Biokeys is in

compliance with the terms of Biokeys Permits, except failures so to comply which, individually or in the aggregate, do not have and are not reasonably expected to have a Material Adverse Effect on Biokeys. Biokeys is not in violation of, or in default under, any law or order of any governmental or regulatory authority except for violations which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on Biokeys.

3.25. COMPLIANCE WITH AGREEMENTS; CERTAIN AGREEMENTS. Except as set forth on SCHEDULE 3.25, neither Biokeys, nor to the knowledge of Biokeys, any other party thereto, is in breach or violation of, or in default in the performance or observance of any term or provision of and no event has occurred which, with notice or lapse of time or both, is reasonably expected to result in a default under, (x) the Certificate of Incorporation or By-laws of Biokeys or (y) any material contract to which Biokeys is a party or by which Biokeys or any of its assets or properties is bound, except in the case of clause (y) for breaches, violations and defaults which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on Biokeys.

3.26. EMPLOYEE BENEFIT PLANS. Biokeys does not have or contribute to any pension, profit- sharing, option, other incentive plan, or any other type of employee benefit plan, or have any obligation to or customary arrangement with employees for bonuses, incentive compensation, vacations, severance pay, sick pay, sick leave, insurance, service award, relocation, disability, tuition refund or other benefits, whether oral or written.

3.27. BROKERS. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Biokeys and its affiliates directly with Biokeys, without the intervention of any person on behalf of Biokeys in such manner as to give rise to any valid claim by any person against Biokeys, BioQuest or Merger Sub for a finder's fee, brokerage commission or similar payment, except as specifically set forth in SCHEDULE 3.27.

3.28. CONSENTS WITHOUT ANY CONDITION. Biokeys has not made any agreement or reached any understanding not approved by BioQuest as a condition for obtaining any consent, authorization, approval, order, license, certificate or permit required for the consummation of the transactions contemplated by this Agreement.

3.29. TAX MATTERS. (a) Except as set forth in SCHEDULE 3.29, Biokeys has filed all tax returns to be filed by applicable law prior to the Closing. All tax returns were (and, as to tax returns not filed as of the date hereof, will be) true, complete and correct and filed on a timely basis. Biokeys (x) has paid all taxes due, or claimed or asserted in writing by any taxing authority to be due, for the periods covered by such tax returns or (y) has duly and fully provided reserves (in accordance with GAAP) adequate to reflect all such taxes.

(b) Biokeys has established (and until the Closing will maintain) on its books and records reserves adequate to reflect all material taxes not yet due and payable. Biokeys shall make available to BioQuest complete and accurate copies of all work papers associated with the calculation of Biokeys' tax reserves.

(c) There are no tax liens upon the assets of Biokeys.

(d) Biokeys has not requested (and no request has been made on its behalf) any extension of time within which to file any material tax return.

(e) (A) No income tax returns have been examined by any taxing authorities for any periods; and (B) no deficiency for any material taxes has been suggested, proposed, asserted, or assessed against Biokeys that has not been resolved and paid in full.

(f) No audits or other administrative proceedings or court proceedings are presently pending with regard to any taxes or tax returns of Biokeys.

(g) To the extent requested by Biokeys, Biokeys has made available to Biokeys (or, in the case of tax returns to be filed on or before the Closing, will make available) complete and accurate copies of all tax returns and associated work papers filed by or on behalf of Biokeys for all taxable years ending on or prior to the Closing.

(h) No agreements relating to allocating or sharing of any taxes have been entered into by Biokeys.

(i) Biokeys has not entered into any transactions that could give rise to an understatement of Federal Income Tax.

3.30. OSHA. Except as disclosed in SCHEDULE 3.30, during the five years immediately prior to the date of this Agreement, Biokeys has not been cited for any violations of the Occupational Safety and Health Act of 1970, as amended, nor are there any citations pending as a result of inspections or for noncompliance with such Act. Except as otherwise provided in such Schedule, each of the conditions which resulted in the issuance of a citation has been abated or otherwise corrected to the satisfaction of the Occupational Safety and Health Administration as of the date of this Agreement.

3.31. IMMIGRATION MATTERS. Except as set forth in SCHEDULE 3.31, Biokeys has properly completed and maintained Forms I-9 on all persons who became employed by Biokeys for the past three years, and any alien employee of Biokeys is employed pursuant to a valid temporary work authorization. The Schedule lists the names of any alien employees who are required to have temporary work authorizations, the date of their employment and their job titles and responsibilities, and attached to such Schedule is the Form I-9 for each such person.

3.32. INFORMATION SUPPLIED. (a) Nothing in this Agreement or any Schedule, annex, certificate, document or statement in writing which has been supplied by or on behalf of Biokeys, in connection with the transactions contemplated hereby, contains any untrue statement of a material fact, or omits any statement of a material fact required to be stated or necessary in order to make the statements contained herein or therein not misleading. There is no fact known to Biokeys which

materially and adversely affects Biokeys, which has not been set forth in this Agreement or in the Schedules, exhibits, annexes, certificates, documents or statements in writing furnished by Biokeys in connection with the transactions contemplated by this Agreement.

(b) In furtherance of the foregoing, from the execution of this Agreement until the Closing, Biokeys may attach, update and/or amend any Biokeys Schedules or Exhibits referenced to herein, provided that such Schedules or Exhibits have been agreed to in writing by all of the parties in accordance with Section 10.07.

IV. REPRESENTATIONS AND WARRANTIES

OF BIOQUEST AND MERGER SUB

BioQuest and Merger Sub jointly and severally represent and warrant to Biokeys, and Biokeys is relying materially thereon in entering into this Agreement, as follows:

4.01. ORGANIZATION AND QUALIFICATION. BioQuest and Merger Sub are both corporations duly organized, validly existing and in good standing under the laws of the State of Delaware and both have full power and authority to conduct

its business as and to the extent now conducted and to own, use and lease their assets and properties, except for such failures to have such power and authority which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub, as the case may be. BioQuest and Merger Sub are duly qualified, licensed or admitted to do business and is in good standing in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed or admitted and in good standing which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub.

4.02. CORPORATE RECORDS. The copies of the Certificate of Incorporation and By-laws of BioQuest and Merger Sub, as amended to date and annexed hereto as SCHEDULE 4.02, are true and complete copies of such documents as now in effect. The minute books of BioQuest and Merger Sub as presented for inspection by Biokeys are accurate and complete in all material respects.

4.03. CAPITALIZATION. (a) The authorized capital stock of BioQuest consists of 1,000,000 shares of Preferred Stock, none of which are outstanding and 30,000,000 shares of Common Stock, $0.001 par value, of which 12,361,666 shares are issued and outstanding as of the date hereof. Except as set forth in SCHEDULE 4.03(A), there is no other authorized class, series or unit of securities of any kind (whether or not convertible into Common Stock), and there are no options, warrants or rights of any kind, evidencing a proprietary interest (or permitting a third party to obtain a proprietary interest) in BioQuest. None of the shares of BioQuest have been issued in a manner giving rise to claims for violation of the securities laws of any jurisdiction.

(b) The authorized capital stock of Merger Sub consists of 2,000,000 shares of Common Stock, $0.01 par value, of which 100 shares are issued and outstanding as of the date hereof. Except as set forth in SCHEDULE 4.03(B), there is no other authorized class, series or unit of securities of any kind (whether or not convertible into Common Stock), and there are no options, warrants or rights of any kind, evidencing a proprietary interest (or permitting a third party to obtain a proprietary interest) in Merger Sub. None of the shares of Merger Sub have been issued in a manner giving rise to claims for violation of the securities laws of any jurisdiction.

(c) Except as contemplated hereby, there are no outstanding contractual obligations of BioQuest and Merger Sub to repurchase, redeem or otherwise acquire any shares of BioQuest and Merger Sub or to grant, extend or enter into any option with respect thereto.

(d) There are no debt obligations of BioQuest and Merger Sub of any nature whatsoever, and as of the Closing Date, BioQuest and Merger Sub will not have any debt, liabilities, obligations or contingent liabilities of any nature whatsoever, except as set forth on SCHEDULE 4.03(D).

(e) All of BioQuest's and Merger Sub's shares are fully paid, duly and validly issued and owned of record and beneficially by the stockholders; and in the amounts listed in SCHEDULE 4.03(E).

4.04. BOOKS AND RECORDS. The books and records of BioQuest and Merger Sub are true, accurate and complete in all material respects.

4.05. SUBSIDIARIES AND INVESTMENTS. Except as set forth in SCHEDULE 4.05, BioQuest and Merger Sub do not own, directly or indirectly, any capital stock or other equity or ownership or proprietary interest in any other corporation, partnership, association, trust, joint venture or other entities.

4.06. AUTHORITY RELATIVE TO THIS AGREEMENT. BioQuest and Merger Sub have full corporate power and authority to enter into this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by BioQuest and Merger Sub and the consummation by BioQuest and Merger Sub of the Merger and the transactions contemplated hereby have been duly and validly approved by the Board of Directors of BioQuest and Merger Sub. No other corporate proceedings on the part of BioQuest and Merger Sub, other than stockholder approval as set forth in this Agreement, are necessary to authorize the execution, delivery and performance of this Agreement by BioQuest and Merger Sub and the consummation by BioQuest and Merger Sub of the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by BioQuest and Merger Sub, and constitutes a legal, valid and binding obligation of BioQuest and Merger Sub enforceable against BioQuest and Merger Sub in accordance with its terms.

4.07. NON-CONTRAVENTION; APPROVALS AND CONSENTS. (a) The execution and delivery of this Agreement by BioQuest and Merger Sub does not, and the performance by BioQuest and Merger Sub of its obligations hereunder and the consummation of the transactions contemplated

hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in, or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any lien on any of the assets or properties of BioQuest and Merger Sub under any of the terms, conditions or provisions of (x) the Certificate of Incorporation or By-laws of BioQuest and Merger Sub, (y) any laws or orders of any governmental or regulatory authority applicable to BioQuest and Merger Sub or any of its assets or properties, or (z) any contracts to which BioQuest and Merger Sub is a party or by which BioQuest and Merger Sub or any of its assets or properties is bound, excluding from the foregoing clauses (y) and (z) conflicts, violations, breaches, defaults, terminations, modifications, accelerations and creations and impositions of liens, which individually or in the aggregate, would not be reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub or on its ability to consummate the transactions contemplated by this Agreement.

(b) Except (x) for the filing of a Certificate of Merger and other appropriate merger documents required by the DGCL with the Secretary of State of Delaware and appropriate documents with the relevant authorities of other states in which the BioQuest and Biokeys are qualified to do business, and (y) as disclosed in SCHEDULE 4.07(B) hereto, no consent, approval, or action of, filing with or notice to any governmental or regulatory authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any governmental or regulatory authority or any contract to which BioQuest and Merger Sub is a party or by which BioQuest and Merger Sub or any of its assets or properties is bound for the execution and delivery of this Agreement by BioQuest and Merger Sub, the performance by BioQuest and Merger Sub of its obligations hereunder or the consummation of the transactions contemplated hereby, except for such consents, approvals or actions of, filing with or notices to any governmental or regulatory authority or other public or private third party the failure of which to make or obtain could not reasonably be expected to have a Material Adverse Effect on BioQuest and Merger Sub or on BioQuest and Merger Sub's ability to consummate the transactions contemplated by this Agreement.

4.08. FINANCIAL STATEMENTS. All financial statements of BioQuest delivered, and to be delivered under this Agreement to Biokeys, constituting an unaudited balance sheet, unaudited statement of income and expense, unaudited statements of cash flow and unaudited statement of shareholder's equity of BioQuest as of and for the periods ended December 31, 1999 and March 31, 2000 ("BioQuest Financial Statements"), shall conform in so far as possible to GAAP. BioQuest Financial Statements fairly present the financial condition, assets, liabilities, stockholders equity and results of operations of BioQuest for the periods indicated.

4.09. ABSENCE OF UNDISCLOSED LIABILITIES. Except for matters reflected or reserved against in BioQuest and Merger Sub Balance Sheets included in BioQuest and Merger Sub Financial Statements, BioQuest and Merger Sub did not have at such date and have not incurred since that date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature, except liabilities or obligations which were incurred in connection with this Agreement and the transactions contemplated hereby or in the ordinary

course of business consistent with past practice.

4.10. ABSENCE OF SALES AND CUSTOMERS. BioQuest is a development stage company engaged in biopharmaceutical research and development and has no sales or customers.

4.11. CONTRACTS. Except as set forth in SCHEDULE 4.11, (a) BioQuest and Merger Sub have made available for examination by Biokeys copies of all material contracts, agreements and other instruments of BioQuest and Merger Sub; (b) all such contracts, agreements and other instruments are valid, binding and enforceable in accordance with their terms and are in full force and effect; (c) to the best of their knowledge after reasonable inquiry, BioQuest and Merger Sub are not in default, and no condition or event exists or has occurred that, with

notice or lapse of time or both, would become a default under any such contract, agreement or instrument; (d) BioQuest and Merger Sub have not made or entered into any warranties or guarantees with respect to products manufactured or sold by BioQuest and Merger Sub, except warranties implied by law; (e) BioQuest and Merger Sub have received no notice of any default or alleged default under any such contract, agreement or instrument which has not heretofore been cured or which notice has heretofore been withdrawn and does not know of any material default thereunder by any other party thereto or by any other person bound thereunder; and (f) BioQuest and Merger Sub are not a party to, nor bound by, nor are any of its properties subject to, any agreement, contract or commitment which involves $1,000 or more and is not cancellable without penalty within 30 days, or any agreement, contract or commitment which might reasonably be expected to have a material adverse effect on its business.

4.12. NO MATERIAL RESTRICTIONS. Except as set forth in SCHEDULE 4.12, BioQuest and Merger Sub are not party or subject to any charter provision, by-law, mortgage, lien, lease, license, permit, agreement, contract, instrument, law, rule, ordinance, regulation, order, judgment or decree, or any other restriction of any kind or character, which (a) is reasonably expected to have a Material Adverse Effect, or (b) would prevent consummation of the transactions contemplated by this Agreement or the continued operation of the its business after the Closing Date on substantially the same basis as heretofore operated, or (c) would materially restrict the ability of to conduct the business of BioQuest and Merger Sub in substantially the same manner as it is currently conducted.

4.13. TITLE TO ASSETS. Except as set forth in SCHEDULE 4.13, BioQuest and Merger Sub hold good and marketable title to its assets, free and clear of all adverse claims, liens, mortgages, charges, security interests, shared ownership, encumbrances or restrictions. There are no outstanding options, calls, commitments, or other plans or agreements of any character providing for the purchase, sale or other disposition of any of such assets, other than as contemplated by this Agreement.

4.14. RELATED PARTY TRANSACTIONS. Except as set forth in SCHEDULE 4.14, BioQuest and Merger Sub have not made any loans to any officer, director, shareholder or employee outstanding on the date of this Agreement, nor entered into any agreement or arrangement with any such person, or with a parent, child, spouse or sibling of such person, in which such person or any of such relatives has a material direct or indirect economic interest in such arrangement or agreement, other than compensation arrangements in keeping with the usual and customary practices of BioQuest and

Merger Sub.

4.15 COMPENSATION OF EMPLOYEES. Set forth in SCHEDULE 4.15 is an accurate and complete list showing the names of all persons employed by BioQuest and Merger Sub in any capacity, their respective titles, job descriptions and dates of hire, and setting forth the present compensation (including salary and bonus and fringe benefits) of each such person. BioQuest and Merger Sub has no employees other than those set forth in SCHEDULE 4.15.

4.16 EMPLOYEE RELATIONS. (a) BioQuest and Merger Sub are in compliance, in all material respects, with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and has not and is not engaged in any unfair labor practice;

(b) No unfair labor practice complaint against BioQuest and Merger Sub is pending before the National Labor Relations Board or any other judicial or administrative body;

(c) BioQuest and Merger Sub have not experienced any material labor difficulty during the last three years; and

(d) No claim of discrimination or harassment is pending or threatened before the Equal Employment Opportunity Commission or any other judicial or administrative body.

4.17. LEGAL PROCEEDINGS. Except as disclosed in SCHEDULE 4.17, there are no actions, suits, arbitrations, or proceedings pending, nor to the knowledge of BioQuest and Merger Sub, threatened against, relating to or affecting, BioQuest and Merger Sub or any of its assets and properties which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on BioQuest and Merger Sub or on the ability of BioQuest and Merger Sub to consummate the transactions contemplated by this Agreement. BioQuest and Merger Sub are not subject to any judgment, decree, court order or writ of any governmental or regulatory authority.

4.18. ENVIRONMENTAL COMPLIANCE. Except as set forth in SCHEDULE 4.18, BioQuest and Merger Sub have at all times complied with and not violated any federal, state or local environmental laws, and BioQuest and Merger Sub facilities have not been used to receive, handle, store, treat, ship or otherwise dispose of hazardous material except in compliance with all applicable environmental, health or safety statutes, ordinances, orders, rules, regulations or requirements. There are no proceedings pending against BioQuest and Merger Sub with respect to the enforcement of any such laws, and, to the knowledge of BioQuest and Merger Sub after reasonable inquiry, no hazardous material have been released into the environment or deposited, discharged, placed or disposed of at, on or near BioQuest's facilities, nor has BioQuest used its facilities been used at any time by any person as a landfill or a waste disposal site. BioQuest and Merger Sub knows of no fact or circumstance that would reasonably be expected to give rise to any future civil, criminal or administrative proceedings against them under any environmental laws.

4.19. INSURANCE. Set forth in SCHEDULE 4.19 is a true, correct and complete listing of all insurance policies or binders of insurance which relate to BioQuest and Merger Sub's business and assets. Except as set forth in such Schedule:

(a) the coverage under each such policy and binder is in full force and effect, and no notice of cancellation or non-renewal with respect to, or disallowance of any claim under, any such policy or binder has been received;

(b) there are no programs of self-insurance relating to BioQuest and Merger Sub's business;

(c) there are no pending or unpaid claims under any such insurance policy; and

(d) no event has occurred which reasonably might form the basis of any claim against BioQuest and Merger Sub covered by any of the policies or binders set forth in the Schedule or which would reasonably be expected to increase materially the insurance premiums payable under any such policy or binder.

4.20. INTELLECTUAL PROPERTY. (a) SCHEDULE 4.20(A) contains a complete and accurate list of all Intellectual Property (as defined below) owned by, licensed to or otherwise used by BioQuest. BioQuest owns, or possesses valid licenses to use, all Intellectual Property necessary for the operation of its business as it is operated as of the date of this Agreement. Except as otherwise set forth in such Schedule, each item of Intellectual Property (i) has been maintained and used in accordance with applicable law, (ii) is transferable to Biokeys through the Merger in accordance with the terms of this Agreement, (iii) has not been infringed by any other person, (iv) is not subject to any lien or encumbrance and (v) each license agreement is valid and binding and is not considered in default. Except as set forth in SCHEDULE 4.20(A), neither any Intellectual Property nor any right therein has been assigned to a third party.

(b) Except as otherwise indicated in SCHEDULE 4.20(B), each item of Intellectual Property, to the extent practicable, has been duly registered or recorded with, or is protected by applications filed with the appropriate governmental agency, to the extent required, and each such registration, recording, and filing remains in full force and effect.

(c) Except as set forth in SCHEDULE 4.20(C), no claim adverse to the interests of BioQuest in the Intellectual Property rights or agreements listed in such Schedule which is reasonably expected to have a material adverse effect on its business has been made or threatened. To the knowledge of BioQuest, no person has infringed or otherwise violated BioQuest's right in any of the Intellectual Property or agreements listed in SCHEDULE 4.20(C). Except as set forth on SCHEDULE 4.20(C), no litigation is pending wherein BioQuest is accused of infringing or otherwise violating the Intellectual Property right of another, or of breaching a contract conveying rights under Intellectual Property, and, to the knowledge of BioQuest, no such claim has been asserted or threatened against BioQuest nor are there any facts that would give rise to such a claim.

(d) Each current and former employee or consultant of BioQuest has assigned to BioQuest all of such employee's rights to, and benefits to be derived from, each item of Intellectual Property developed by such employee or consultant while employed or engaged by BioQuest relating to Intellectual

Property of BioQuest.

(e) Except as set forth in SCHEDULE 4.20(E), the Intellectual Property is free from known material defects and substantially conforms to the applicable specifications and documentation of such Intellectual Property.

(f) Except as set forth in SCHEDULE 4.20(F), to the knowledge of BioQuest after reasonable inquiry, none of BioQuest's officers, employees, consultants, distributors, agents or representatives have on their own behalf entered into any agreement regarding know-how, trade secrets, assignment of rights in inventions, or prohibition or restriction of competition or solicitation of customers, or any other similar restrictive agreement or covenant, whether written or oral, with any person other than BioQuest during the period in which such officer, employee, consultant, agent or representative was employed with or engaged by BioQuest.

(h) For purposes of this Agreement, the term "Intellectual Property" shall mean (i) all research practice or protocols, products, tools, computer programs, specifications, source code, object code, graphics, devices, techniques, algorithms, methods, processes, procedures, packaging, formulae, drawings, designs, improvements, discoveries, concepts, user interfaces, the "look and feel" of any software or web sites, software, software development and other tools, content, data inventions (whether or not patentable or copyrightable and whether or not reduced to practice), designs, logos, themes, know-how, and other technology that are now or are currently proposed to be developed, produced, used, marketed or sold by BioQuest; and (ii) all proprietary rights in provision (h)(i), including, without limitation, all: (1) domain names; (2) trade names, trademarks, service marks, logos, brand names and other identifiers, with respect only to the goods and services on which they are currently used by BioQuest; (3) trade secrets,(4) copyrights and (5) domestic and foreign letters patent, and the registrations, applications, renewals, extensions and continuations (in whole or in part) thereof, together with all goodwill associated with the Intellectual Property.

4.21. BANK ACCOUNTS AND POWERS OF ATTORNEY. SCHEDULE 4.21 lists the name of each bank, savings and loan, or other financial institution, in which BioQuest and Merger Sub have an account, including cash contribution accounts or safe deposit boxes, the names of all persons authorized to draw thereon or to have access thereto, and the names of any persons holding powers of attorney with respect to its business of BioQuest and Merger Sub.

4.22. CORPORATE AND FICTITIOUS NAMES. Except as disclosed in SCHEDULE 4.22, (i) BioQuest and Merger Sub have not been known by or used any other corporate or fictitious name and (ii) BioQuest and Merger Sub have full right to the use of its name, free from any claim of infringement by any person.

4.23. ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as set forth in SCHEDULE 4.23, since

the Letter of Intent, BioQuest and Merger Sub have conducted its operations and business only in the ordinary course and have not:

(a) suffered either any Material Adverse Effect with respect to its financial condition, results of operations or business or any other event or condition of any character that might reasonably be expected to have a Material Adverse Effect on its business or prospects, including any liability, loss, damage or expense outside the ordinary course of business;

(b) suffered any loss or prospective loss of one or more dealers, suppliers or customers, or altered any contractual arrangement with any one or more of its dealers, suppliers or customers, the loss or alteration of which, either individually or in the aggregate, would have a Material Adverse Effect;

(c) made any capital expenditure or commitments for the acquisition or construction of any single item of property, plant or equipment in excess of $1,000;

(d) amended or terminated any lease, contract or material commitment to which BioQuest and Merger Sub is a party;

(e) entered into any transaction not in the ordinary course of business or otherwise inconsistent in any respect with the past practices or conduct of its business of BioQuest and Merger Sub;

(f) sold any accounts receivable, disposed of any inventories other than in the ordinary course of business or accrued any liabilities not in

the ordinary course of business;

(g) changed any material accounting principle, material procedure or material practice followed by BioQuest and Merger Sub;

(h) incurred any indebtedness for borrowed money;

(i) created, assumed or permitted to exist any lien, pledge, security interest, encumbrance or mortgage of any kind on any of the assets;

(j) acquired the securities or substantially all of its assets of any other entity;

(k) merged or consolidated with any entity;

(l) established or agreed to establish any pension, retirement, profit-sharing, deferred compensation or other employee benefit or welfare plan for the employees of BioQuest and Merger Sub;

(m) since December 31, 1999, entered into any employment or similar contract with any

officer or employee, or granted any bonuses or salary increases to any officer or employee except for normal cost-of- living escalations related to increases in the Consumer Price Index;

(n) amended in any material respect or terminated any plan or agreement concerning employee benefits or compensation or made awards or distributions under any such plan or agreement;

(o) entered into any material contract (including but not limited to assignments, licenses, transfers of exclusive rights, "work for hire" agreements, special commissions, employment contracts, purchase orders, sales orders, mortgages and security agreements) which (A) contain a grant or other transfer, whether present, retroactive, prospective, or contingent, by it of any rights in any Intellectual Property, or (B) contain a promise made by or to it to pay any lump sum or royalty or other payment or consideration with respect to the acquisition, practice or use of any Intellectual Property.

4.24. COMPLIANCE WITH LAWS AND ORDERS. Except as disclosed on SCHEDULE 4.24, to the best of their knowledge after reasonable inquiry, BioQuest and Merger Sub hold all permits, licenses, variances, exemptions, orders and approvals of all governmental and regulatory authorities necessary for the lawful conduct of its business (the "BioQuest and Merger Sub Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub. BioQuest and Merger Sub are in compliance with the terms of BioQuest and Merger Sub Permits, except failures so to comply which, individually or in the aggregate, do not have and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub. BioQuest and Merger Sub are not in violation of, or in default under, any law or order of any governmental or regulatory authority except for violations which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub.

4.25. COMPLIANCE WITH AGREEMENTS; CERTAIN AGREEMENTS. Except as set forth on SCHEDULE 4.25, neither BioQuest and Merger Sub, nor to the knowledge of BioQuest and Merger Sub, any other party thereto, is in breach or violation of, or in default in the performance or observance of any term or provision of and no event has occurred which, with notice or lapse of time or both, is reasonably expected to result in a default under, (x) the Certificate of Incorporation or By- laws of BioQuest and Merger Sub or (y) any material contract to which BioQuest and Merger Sub is a party or by which BioQuest and Merger Sub or any of its assets or properties is bound, except in the case of clause (y) for breaches, violations and defaults which, individually or in the aggregate, do not and are not reasonably expected to have a Material Adverse Effect on BioQuest and Merger Sub.

4.26. EMPLOYEE BENEFIT PLANS. BioQuest and Merger Sub do not have or contribute to any pension, profit-sharing, option, other incentive plan, or any other type of employee benefit plan, or have any obligation to or customary arrangement with employees for bonuses, incentive

compensation, vacations, severance pay, sick pay, sick leave, insurance, service award, relocation, disability, tuition refund or other benefits, whether oral or written.

4.27. BROKERS. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by BioQuest and Merger Sub and its affiliates directly with BioQuest and Merger Sub, without the intervention of any person on behalf of BioQuest and Merger Sub in such manner as to give rise to any valid claim by any person against BioQuest and Merger Sub, BioQuest or Merger Sub for a finder's fee, brokerage commission or similar payment, except as specifically set forth in SCHEDULE 4.27.

4.28. CONSENTS WITHOUT ANY CONDITION. BioQuest and Merger Sub has not made any agreement or reached any understanding not approved by BioQuest as a condition for obtaining any consent, authorization, approval, order, license, certificate or permit required for the consummation of the transactions contemplated by this Agreement.

4.29. TAX MATTERS.

(a) Except as set forth in SCHEDULE 4.29, BioQuest and Merger Sub have filed all tax returns to be filed by applicable law prior to the Closing. All tax returns were (and, as to tax returns not filed as of the date hereof, will be) true, complete and correct and filed on a timely basis. BioQuest and Merger Sub (x) have paid all taxes due, or claimed or asserted in writing by any taxing authority to be due, for the periods covered by such tax returns or (y) has duly and fully provided reserves (in accordance with GAAP) adequate to reflect all such taxes.

(b) BioQuest and Merger Sub have established (and until the Closing will maintain) on its books and records reserves adequate to reflect all material taxes not yet due and payable. BioQuest and Merger Sub have made available to BioQuest and Merger Sub complete and accurate copies of all work papers associated with the calculation of BioQuest and Merger Sub's tax reserves.

(c) There are no tax liens upon the assets of BioQuest and Merger Sub.

(d) BioQuest and Merger Sub has not requested (and no request has been made on its behalf) any extension of time within which to file any material tax return.

(e) (A) No income tax returns have been examined by any taxing authorities for any periods; and (B) no deficiency for any material taxes has been suggested, proposed, asserted, or assessed against BioQuest and Merger Sub that have not been resolved and paid in full.

(f) No audits or other administrative proceedings or court proceedings are presently pending with regard to any taxes or tax returns of BioQuest and Merger Sub.

(g) To the extent requested by BioQuest and Merger Sub, BioQuest and Merger Sub have made available to BioQuest and Merger Sub (or, in the case of tax returns to be filed on or before

the Closing, will make available) complete and accurate copies of all tax returns and associated work papers filed by or on behalf of BioQuest and Merger Sub for all taxable years ending on or prior to the Closing.

(h) No agreements relating to allocating or sharing of any taxes have been entered into by BioQuest and Merger Sub.

(i) BioQuest and Merger Sub has not entered into any transactions that could give rise to an understatement of Federal Income Tax.

4.30. OSHA. Except as disclosed in SCHEDULE 4.30, during the five years immediately prior to the date of this Agreement, BioQuest and Merger Sub have not been cited for any violations of the Occupational Safety and Health Act of 1970, as amended, nor are there any citations pending as a result of inspections or for noncompliance with such Act. Except as otherwise provided in such Schedule, each of the conditions which resulted in the issuance of a citation has been abated or otherwise corrected to the satisfaction of the Occupational Safety and Health Administration as of the date of this Agreement.

4.31. IMMIGRATION MATTERS. Except as set forth in SCHEDULE 4.31, BioQuest and Merger Sub have properly completed and maintained Forms I-9 on all

persons who became employed by BioQuest and Merger Sub for the past three years, and any alien employee of BioQuest and Merger Sub is employed pursuant to a valid temporary work authorization. The Schedule lists the names of any alien employees who are required to have temporary work authorizations, the date of their employment and their job titles and responsibilities, and attached to such Schedule is the Form I-9 for each such person.

4.32. INFORMATION SUPPLIED. (a) Nothing in this Agreement or any Schedule, annex, certificate, document or statement in writing which has been supplied by or on behalf of BioQuest and Merger Sub, in connection with the transactions contemplated hereby, contains any untrue statement of a material fact, or omits any statement of a material fact required to be stated or necessary in order to make the statements contained herein or therein not misleading. There is no fact known to BioQuest and Merger Sub which materially and adversely affects BioQuest and Merger Sub, which has not been set forth in this Agreement or in the Schedules, exhibits, annexes, certificates, documents or statements in writing furnished by BioQuest and Merger Sub in connection with the transactions contemplated by this Agreement.

(b) In furtherance of the foregoing, from the execution of this Agreement until the Closing, BioQuest may attach, update and/or amend any BioQuest Schedules or Exhibits referenced to herein, provided that such Schedules or Exhibits have been agreed to in writing by all of the parties in accordance with Section 10.07.

V. COVENANTS

5.01. INFORMATION STATEMENT. BioQuest and Biokeys shall each distribute its own information statement, proxy statement or other disclosure statement for its respective stockholders to approve this Agreement and the transactions contemplated hereby and thereby (the "Information Statement"). Each of BioQuest and Biokeys agree to provide promptly to the other such information concerning its business and financial statements and affairs as, in the reasonable judgment of the providing party or its counsel, may be required or appropriate for inclusion in the Information Statement, or in any amendments or supplements thereto, and to cause its counsel and auditors to cooperate with the other's counsel and auditors in the preparation of the Information Statement. BioQuest will promptly advise Biokeys, and Biokeys will promptly advise BioQuest, in writing if at any time prior to the Effective Time either BioQuest or Biokeys shall obtain knowledge of any facts that might make it necessary or appropriate to amend or supplement the Information Statement in order to make the statements contained or incorporated by reference therein not misleading or to comply with applicable law. Anything to the contrary contained herein notwithstanding, neither BioQuest nor Biokeys shall include in an Information Statement any information with respect to the others, the form and content of which information shall not have been approved by the other prior to such inclusion.

5.02. STOCKHOLDER APPROVAL. BioQuest and Biokeys shall each promptly after the date hereof take all action necessary in accordance with DGCL and their respective Certificates of Incorporation and Bylaws to hold, as promptly as possible, special meetings of their respective stockholders, for the purpose of seeking approval of this Agreement and all transactions contemplated thereunder. In lieu of such meeting, either party may obtain written consents from its stockholders holding a majority of its outstanding shares for the purpose of seeking approval of this Agreement, provided that such consents comply with and are permitted under the applicable provisions of the DCGL.

5.03. ACCESS TO INFORMATION. Between the date of this Agreement and the earlier of the Effective Time or the termination of this Agreement, upon reasonable notice, BioQuest and Biokeys shall, during normal business hours, (i) give each other and their respective officers, employees, accountants, counsel, financing sources and other agents and representatives full access to their buildings, offices, and other facilities and to all their books and records, whether located on their premises or at another location; (ii) permit the other party to make such inspections as they may require; (iii) cause its officers to furnish the other party such financial, operating, technical and product data and other information with respect to the business and assets and properties of BioQuest and Biokeys as they from time to time may request, including financial statements and Schedules; (iv) allow each other the opportunity to interview their employees and other personnel with their prior written consent, which consent shall not be unreasonably withheld or delayed; and (v) assist and cooperate with BioQuest, Merger Sub and Biokeys in implementation by the parties of the Merger; provided, however, that no investigation pursuant to this Section 5.03 shall affect or be deemed to modify any representation or warranty made by BioQuest and Biokeys herein. Materials furnished to BioQuest and Biokeys pursuant to this Section 5.03 may be used by each party for

strategic and integration planning purposes relating to accomplishing the transactions contemplated hereby.

5.04. PUBLIC DISCLOSURE. Unless otherwise required by law (including federal and state securities laws) prior to the Effective Time (in which case BioQuest and Biokeys shall have a prior opportunity to review and comment on the proposed disclosure), no disclosure (whether or not in response to any inquiry) of the existence of any subject matter of, or the terms and conditions of, this Agreement shall be made by any party hereto unless approved by BioQuest and Biokeys prior to release; provided, however, that such approval shall not be unreasonably withheld or delayed.

5.05. APPROVALS. Each of BioQuest and Biokeys shall use all commercially reasonable efforts required to obtain all approvals from governmental or regulatory authorities or under any of the contracts or other agreements as may be required for each of BioQuest and Biokeys, respectively, to participate in the Merger so as to preserve all rights of, and benefits to, each party, and each party shall provide the other with such assistance and information as is reasonably required to obtain such approvals.

5.06. NOTIFICATION OF CERTAIN MATTERS. Biokeys shall give prompt notice to BioQuest, and BioQuest shall give prompt notice to Biokeys, of (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of Biokeys, BioQuest or Merger Sub, respectively, contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Closing Date and (ii) any failure of Biokeys, BioQuest or Merger Sub, 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, or failure to do so, pursuant to this Section 5.06 shall not limit or otherwise affect any remedies available to the party receiving such notice.

5.07. ADDITIONAL DOCUMENTS AND FURTHER ASSURANCES. Each party hereto, at the request of the other party hereto, shall execute and deliver such other instruments and do and perform such other acts and things (including, but not limited to, all action reasonably necessary to seek and obtain any and all consents and approvals of any government or regulatory authority or person required in connection with the Merger; provided, however, that no party shall be obligated to consent to any divestitures or operational limitations or activities in connection therewith and no party shall be obligated to make a payment of money as a condition to obtaining any such condition or approval) as may be necessary or desirable for effecting completely the consummation of this Agreement and the transactions contemplated hereby.

5.08. MAINTENANCE OF BUSINESS. From the date hereof until the Closing, BioQuest and Biokeys shall each use its diligent, good faith efforts, to cause each of BioQuest and Biokeys to carry on and preserve its respective business, goodwill and relationships with suppliers, employees, agents and others in substantially the same manner as it had been prior to the date hereof.

5.09. CONDUCT OF BUSINESS; RESTRICTIONS. (a) From the date hereof until the Effective

Time, except as expressly permitted hereby, neither BioQuest nor Biokeys shall without the prior express written consent of the other (except as set forth in SCHEDULE 5.09):

(i) incur any additional indebtedness, or guarantee any indebtedness or obligation of any other party, except in the ordinary course of business;

(ii) issue, redeem, pledge, sell or repurchase any of is capital stock or securities convertible into its capital stock or grant or issue any options, warrants or rights to subscribe for its capital stock or securities convertible into its capital stock or commit to do any of the foregoing;

(iii) enter into or terminate or amend any material agreement or arrangement, including, without limitation, any agreement concerning Intellectual Property;

(iv) increase the compensation or bonuses payable or to become payable to any of its officers, employees or agents or adopt or amend any

employee benefit plan or arrangement;

(v) enter into any employment contract or agreement with any existing or prospective employee which is not terminable at will;

(vi) pay any obligation or liability, fixed or contingent, other than current liabilities or except as such payment becomes due;

(vii) cancel, without full payment, any note, loan or other obligation owing to it, or waive any rights of material value;

(viii) acquire or dispose of any properties, assets or business except in the ordinary course of its business;

(ix) create or suffer to be imposed any lien, mortgage, security interest or other charge on or against its properties or assets other than in the ordinary course of business consistent with its past practices;

(x) make or adopt any change in its Certificate of Incorporation or Bylaws as in force and effect on the date hereof;

(xi) declare or pay any dividends on or make any other distributions in respect of any shares of its capital stock; or

(xii) pay, agree to pay or make any accrual or arrangement for payment of any pension, retirement allowance or other employee benefit pursuant to any plan, agreement or arrangement to any officer, director or employee.

(b) From the date hereof until the Effective Time, except as expressly permitted hereby, each of BioQuest and Biokeys shall, unless otherwise expressly consented to in writing by the other:

(i) maintain its existing insurance policies, unless comparable insurance is substituted therefor, and shall not take any action to terminate or modify those insurance policies;

(ii) accurately maintain its books and records consistent with past practices and policies;

(iii) maintain in good condition, ordinary wear and tear excepted, and in compliance in all material respects with all applicable laws, regulations and agreements, all assets owned, leased, licensed or operated, as the case may be, by it;

(iv) observe and perform, and remain in compliance with, all obligations in agreements and contracts the breach or violation of which would have, individually or in the aggregate, a Material Adverse Effect, and not enter into any agreements or contracts which would require payments of more than Five Thousand Dollars ($5,000) over any period of twelve (12) months; and

(v) maintain compliance with the terms and conditions of all material contracts or licenses held by it or under which it operates or conducts its business and use its best efforts to maintain all such material contracts and licenses in full force and effect.

5.10. CONFIDENTIALITY. Each party will cause its directors, affiliates, officers, employees or authorized representatives to hold in strict confidence, and not disclose to any third party, without prior written consent of the other party, all confidential information received by it in connection with the transactions contemplated hereby, except as may be required by applicable law or as otherwise contemplated herein.

5.11. DIRECTORS' AND OFFICERS' INSURANCE. BioQuest shall, as soon as possible, after the Effective Time, apply for, use its best efforts to obtain, and maintain in effect, directors and officers liability insurance in a face amount of at least $3,000,000. BioQuest acknowledges that the directors and officers of Biokeys and the directors and officers of BioQuest prior to the Effective Time have a right to indemnification under the respective Certificates of Incorporation and By-laws of each corporation and under the DCGL, and BioQuest shall not limit or interfere with such rights, and BioQuest shall take such actions, to indemnify each director and officer of Biokeys and its subsidiaries, against all losses, claims, damages, costs and expenses (including reasonable attorneys' fees), liabilities, judgements, and settlement amounts that are paid or incurred in connection with any claim, action, suit, proceeding

or investigation (whether civil, criminal, administrative or investigative) arising out of or pertaining to matters existing or occurring at or prior to the Effective Time (whether asserted or claimed prior to, at or after the Effective Time), to the same extent, the same time and on the same bases that BioQuest is obligated to indemnify, or actually indemnifies, the directors and officers of BioQuest, subject to the applicable terms of the DGCL.

5.12. NECESSARY ACTIONS. BioQuest, Merger Sub and Biokeys shall use all commercially reasonable efforts to promptly take all actions and make all filings required by the Internal Revenue Code or otherwise, in order to cause the Merger to be treated as a "tax-free" reorganization under the Internal Revenue Code.

5.13. AGREEMENT AMONG STOCKHOLDERS. At the Closing, the parties will cause the stockholders listed in SCHEDULE 5.13 to enter into a shareholder's agreement providing that, until the earlier of (a) the first anniversary of the Effective Time and (b) the consummation of a public or private offering by BioQuest in a gross amount of at least $5,000,000, each such shareholder, in any and all elections of directors of BioQuest (whether at a meeting or by written consent in lieu of a meeting), shall vote or cause to be voted all shares owned by him or it, or over which he or it has voting control, and otherwise use his or its respective best efforts, to cause the election as directors of BioQuest of the persons described in Section 2.03(c).

5.14. INTERIM FINANCING. From the date of this Agreement until the Effective Time, the parties shall cooperate in the undertaking of, and Biokeys shall assist BioQuest in conducting, a private placement offering to a limited number of accredited investors, for the purpose of providing interim financing in an aggregate amount of $840,000. Such financing shall take the form of an issuance and sale by BioQuest of its subordinated promissory notes, convertible into shares of BioQuest Common Stock. The parties intend that 50% of the proceeds of such financing shall be derived from sources originated by BioQuest and 50% from sources originated by Biokeys and, on such assumption, 50% of the total proceeds of such financing shall be loaned by BioQuest to Biokeys, such loan to be evidenced by a promissory note to be issued to BioQuest by Biokeys in the form annexed as SCHEDULED 5.14.

VI. CONDITIONS PRECEDENT TO OBLIGATIONS OF BIOQUEST AND MERGER SUB

The obligations of BioQuest and Merger Sub to consummate the Merger, perform and observe the covenants, agreements and conditions hereof to be performed and observed by them at or before the Closing shall be subject to the satisfaction of the following conditions, which may be expressly waived only in writing signed by BioQuest:

6.01. ACCURACY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Biokeys contained herein (including applicable Exhibits or Schedules to the Agreement) shall have been true and correct in all material respects when made and, except (a) for changes contemplated by this Agreement and (b) to the extent that such representations and warranties speak as of an earlier date, shall be true and correct in all material respects as of the Closing Date as though made on that date.

6.02. PERFORMANCE OF AGREEMENTS. Biokeys shall have performed in all material respects all obligations and agreements and complied with all covenants contained in this Agreement or any

other agreements to be performed and complied with by them at or prior to the Closing.

6.03. OPINION OF COUNSEL FOR BIOKEYS. BioQuest shall have received the opinion of Camhy Karlinsky & Stein, LLP, counsel for Biokeys, dated the Closing Date, substantially in the form of Exhibit A, to be attached hereto as set forth in Section 3.32.

6.04. COMPLIANCE CERTIFICATE. BioQuest shall have received a certificate of the President and the Chief Financial Officer of Biokeys, dated the Closing Date, in form and substance satisfactory to BioQuest, certifying that the conditions to the obligations of BioQuest in Sections 6.01, 6.02, 6.05 and 6.06 have been fulfilled.

6.05. MATERIAL ADVERSE CHANGE. Since the date of this Agreement and through the Closing, there shall not have occurred any Material Adverse Effect on Biokeys.

6.06. APPROVALS AND CONSENTS. All transfers of permits or licenses and all approvals of or notices to public agencies, federal, state, local or foreign, the granting or delivery of which is necessary for the consummation of the transactions contemplated hereby, or for the continued operation of Biokeys, shall have been obtained, and all waiting periods specified by law shall have passed. All other consents, approvals and notices referred to in this Agreement shall have been obtained or delivered.

6.07. PROCEEDINGS AND DOCUMENTS; SECRETARY'S CERTIFICATE. All corporate and other proceedings in connection with the transactions contemplated hereby and by any other agreement, and all documents and instruments incident to such transactions, shall have been approved by BioQuest's counsel. BioQuest shall have received a certificate of the Secretary of Biokeys, in form and substance satisfactory to BioQuest, as to the authenticity and effectiveness of the actions of the Board of Directors and shareholders of Biokeys authorizing the Merger, the transactions contemplated by this Agreement and the other agreements, and copies of Biokeys' Articles of Incorporation, certified by the Delaware Secretary of State, and Bylaws, certified by the Secretary of Biokeys, shall be attached to such certificate.

6.08. COMPLIANCE WITH LAWS. The consummation of other transactions contemplated by this Agreement and any other agreements shall be legally permitted by all laws and regulations to which BioQuest or Biokeys is subject.

6.09. SHAREHOLDER APPROVAL. The principal terms of this Agreement and the transactions contemplated therein shall have been approved by the holders of not less than a majority (or such higher percentage as required by Biokeys' Articles of Incorporation) of each class of Biokeys capital stock.

6.10. LEGAL PROCEEDINGS. No order of any court or administrative agency shall be in effect which enjoins, restrains, conditions or prohibits consummation of this Agreement, and no litigation, investigation or administrative proceeding shall be pending or threatened which would enjoin,

restrain, condition or prevent consummation of this Agreement.

6.11. EMPLOYMENT ARRANGEMENTS. At or prior to the Closing, BioQuest shall enter into an employment agreement with Nicholas Jon Virca, as President and Chief Executive Officer, which shall be effective as of the Effective Time and shall be satisfactory in form and substance to the parties thereto.

6.12. CONSENTS TO THE MERGER. SCHEDULE 3.07 lists certain agreements, leases, notes or other documents identified that by their terms require consent. Unless otherwise set forth in SCHEDULE 3.07, Biokeys shall have received and shall have delivered to BioQuest or its counsel written consents to the Merger from each of the parties (other than Biokeys) to such agreements, leases, notes or other documents, which consents shall be reasonably satisfactory in all respects to BioQuest.

6.13. DELIVERY OF FINANCIAL STATEMENTS. Biokeys shall deliver to BioQuest the Biokeys Financial Statements not later than five business days prior to Closing.

6.14. SATISFACTORY DUE DILIGENCE. All due diligence matters concerning Biokeys, including, without limitation, the form and substance of material agreements, organization documents, by-laws, financial statements, technology licenses, and other documents, and the nature and extent of indebtedness (whether or not funded) and capitalization, shall be satisfactory in form and substance to BioQuest and its counsel.

6.15. OPINION OF TAX COUNSEL. BioQuest and Biokeys shall have received an opinion from tax counsel acceptable to all parties, dated as of the Closing Date, in form and substance reasonably satisfactory to all parties, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, for federal income tax purposes, the Merger will constitute a tax-free "reorganization" within the meaning of Section 368(a) of the Code. In rendering such opinion, chosen tax counsel may receive and rely upon representations including those contained in this Agreement or in certificates of officers of the parties or others; provided, however, that the cost of obtaining such tax opinion shall be reasonable and shall be borne by BioQuest.

VII. CONDITIONS PRECEDENT TO OBLIGATIONS OF

The obligations of Biokeys to perform and observe the covenants, agreements and conditions hereof to be performed and observed by them at or before the Closing shall be subject to the satisfaction of the following conditions, which may be expressly waived only in writing signed by Biokeys.

7.01. ACCURACY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of BioQuest and Merger Sub contained herein shall have been true and correct in all material

respects when made and, except for (a) changes contemplated by this Agreement and (b) to the extent that such representations and warranties speak as of an earlier date, shall be true and correct as of the Closing Date as though made on that date.

7.02. PERFORMANCE OF AGREEMENTS. BioQuest and Merger Sub shall have performed all obligations and agreements and complied with all covenants contained in this Agreement to be performed and complied with by them at or prior to the Closing.

7.03. OPINION OF COUNSEL. Biokeys shall have received the opinion of Bresler Goodman & Unterman, LLP, counsel for BioQuest and Merger Sub, dated the Closing Date, substantially in the form of Exhibit C, to be attached hereto as set forth in Section 4.32.

7.04. COMPLIANCE CERTIFICATE. Biokeys shall have received a certificate of an officer of BioQuest, dated the Closing Date, substantially in form and substance satisfactory to Biokeys, certifying that the conditions to the obligations of Biokeys in Section 7.01, 7.02, 7.05 and 7.06 have been fulfilled.

7.05. LEGAL PROCEEDINGS. No order of any court or administrative agency shall be in effect which enjoins, restrains, conditions or prohibits consummation of this Agreement, and no litigation, investigation or administrative proceeding shall be pending or threatened which would enjoin, restrain, condition or prevent consummation of this Agreement.

7.06. MATERIAL ADVERSE CHANGE. Since the date of this Agreement and through the Closing, there shall not have occurred any Material Adverse Effect on BioQuest. Changes in the trading prices of BioQuest Common Stock shall not be deemed to have a BioQuest Material Adverse Effect under this Agreement.

7.07. APPROVALS AND CONSENTS. All transfers of permits or licenses and all approvals of or notices to public agencies, federal, state, local or foreign, the granting or delivery of which is necessary for the consummation of the transactions contemplated hereby or for the continued operation of Biokeys, shall have been obtained, and all waiting periods specified by law shall have passed. All other consents, approvals and notices referred to in this Agreement shall have been obtained or delivered.

7.08. COMPLIANCE WITH LAWS. The consummation of other transactions contemplated by this Agreement shall be legally permitted by all laws and regulations to which BioQuest or Biokeys are subject.

7.09. SHAREHOLDER APPROVAL. The principal terms of this Agreement and the transactions contemplated therein shall have been approved by the holders of not less than a majority (or such higher percentage as required by BioQuest's Certificate of Incorporation) of each class of BioQuest capital stock.

7.10. EMPLOYMENT ARRANGEMENTS. BioQuest shall enter into an employment agreement with Warren C. Lau ("Mr. Lau"), as Vice President, Finance and Chief Financial Officer, on terms substantially similar to the terms of Mr. Lau's present employment agreement with BioQuest in the forms attached hereto as Exhibit D.

7.11. SATISFACTORY DUE DILIGENCE. All due diligence matters concerning BioQuest, including, without limitation, the form and substance of material agreements, organization documents, by-laws, financial statements, technology licenses, and other documents, and the nature and extent of indebtedness (whether or not funded) and capitalization, shall be satisfactory in form and substance to Biokeys and its counsel.

7.12. PROCEEDINGS AND DOCUMENTS; SECRETARY'S CERTIFICATE. All corporate and other proceedings in connection with the transactions contemplated hereby and by any other agreement, and all documents and instruments incident to such transactions, shall have been approved by Biokeys' counsel. Biokeys shall have received a certificate of the Secretary of BioQuest, in form and substance satisfactory to Biokeys, as to the authenticity and effectiveness of the actions of the Board of Directors and shareholders of BioQuest authorizing the Merger, the transactions contemplated by this Agreement and the other agreements, and copies of BioQuest's Articles of Incorporation, certified by the Delaware Secretary of State, and Bylaws, certified by the Secretary of BioQuest, shall be attached to such certificate.

7.13. CONSENTS TO THE MERGER. SCHEDULE 4.07 lists certain agreements, leases, notes or other documents identified that by their terms require consent. Unless otherwise set forth in SCHEDULE 4.07, BioQuest shall have received and shall have delivered to Biokeys or its counsel written consents to the Merger from each of the parties (other than BioQuest) to such agreements, leases, notes or other documents, which consents shall be reasonably satisfactory in all respects to Biokeys.

7.14. DELIVERY OF FINANCIAL STATEMENTS. BioQuest shall deliver to Biokeys the BioQuest Financial Statements not later than five business days prior to Closing.

7.15. OPINION OF TAX COUNSEL. BioQuest and Biokeys shall have received an opinion from tax counsel acceptable to all parties, dated as of the Closing Date, in form and substance reasonably satisfactory to all parties, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, for federal income tax purposes, the Merger will constitute a tax-free "reorganization" within the meaning of Section 368(a) of the Code. In rendering such opinion, chosen tax counsel may receive and rely upon representations including those contained in this Agreement or in certificates of officers of the parties or others; provided, however, that the cost of obtaining such tax opinion shall be reasonable and shall be borne by BioQuest.

XIII. TERMINATION, AMENDMENT AND WAIVER

8.01. TERMINATION. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the shareholders of Biokeys or BioQuest):

(a) by mutual written consent;

(b) by either Biokeys or BioQuest, if the Merger has not been consummated by July 5, 2000; provided, however, that the right to terminate this Agreement under this subsection (b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date;

(c) by either Biokeys or BioQuest, if there shall be any law or regulation that makes consummation of the Merger illegal or if any judgment, injunction, order or decree enjoining BioQuest, Merger Sub or Biokeys from consummating the Merger is entered and such judgment, injunction, order or decree shall become final and nonappealable; provided, however, that the party seeking to terminate this Agreement pursuant to this subsection (c) shall have used all reasonable efforts to remove such judgment, injunction, order or decree;

(d) by Biokeys, in the event of a material breach by BioQuest of any representation, warranty or agreement contained herein which has not been cured or is not curable by July 5, 2000;

(e) by BioQuest, in the event of a material breach by Biokeys of any representation, warranty or agreement contained herein which has not been cured or is not curable by July 5, 2000; or

(f) the failure to obtain the stockholder approval of either Biokeys' stockholders or BioQuest's stockholders as set forth in Section 5.02 by July 5, 2000.

8.02. EFFECT OF TERMINATION. If this Agreement is validly terminated by Biokeys, BioQuest or Merger Sub pursuant to Section 8.01, this Agreement shall forthwith become null and void and there shall be no liability or obligation on the part of either BioQuest, Merger Sub or Biokeys (or any of their respective officers, directors, representatives, or affiliates), except that nothing contained herein shall relieve BioQuest, Merger Sub or Biokeys from liability

for willful or intentional breach of their respective obligations contained in the Agreement or for fraud.

8.03. AMENDMENT. This Agreement may be amended by the parties hereto at any time before or after approval of Biokeys' shareholders; but after such approval, however, no amendment will be made which by applicable law requires the further approval of Biokeys' shareholders without obtaining such further approval.

8.04. WAIVER. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any

inaccuracy in the representations and warranties contained herein or in any document delivered pursuant hereto, or (c) waive compliance with any agreement or condition contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby.

IX. SURVIVAL AND INDEMNIFICATION

9.01. SURVIVAL. All representations and warranties contained in this Agreement or in any certificate delivered pursuant hereto or thereto shall survive the Closing for a period of 18 months after the Effective Time (the "Survival Period"), and shall not be deemed waived or otherwise affected by any investigation made or any knowledge acquired with respect thereto, or by any notice delivered pursuant to Section 10.02 hereof; provided, however, that any claim based on Section 3.29 and 4.29 shall survive until the end of the applicable statute of limitations. The covenants and agreements contained in this Agreement shall survive the Closing and shall continue until all obligations with respect thereto shall have been performed or satisfied or shall have been terminated in accordance with their terms.

9.02. INDEMNIFICATION BY BIOKEYS. Biokeys shall indemnify and hold harmless BioQuest and Merger Sub, and their respective officers, directors, employees, successors and assigns in respect of any and all claims, actions, suits or other proceedings and any and all losses, costs, expenses, liabilities, fines, penalties, interest, and damages, whether or not arising out of any claim, action, suit or other proceeding (and including reasonable counsel and accountants' fees and expenses and all other reasonable costs and expenses of investigation, defense or settlement of claims and amounts paid in settlement) incurred by, imposed on or borne by BioQuest and Merger Sub or such other persons (collectively "Damages") resulting from the breach of any of the representations, warranties or agreements made by Biokeys in this Agreement.

9.03 INDEMNIFICATION BY BIOKEYS PRINCIPALS. By their separate signatures to this Agreement, Dr. Francis O'Donnell, Jr., M.D., Thomas DePetrillo and Nicholas Jon Virca (the "Biokeys Principals") agree, jointly and severally, to indemnify and hold harmless BioQuest and Merger Sub, and their respective officers, directors, employees, successors and assigns, from and against any and all Damages arising out of any inaccuracy or breach of any representation, warranty or covenant by Biokeys relating to (i) any funded or unfunded indebtedness of Biokeys or (ii) any contractual obligation of Biokeys.

9.04. INDEMNIFICATION BY BIOQUEST AND MERGER SUB. Each of BioQuest and Merger Sub, jointly and severally, shall indemnify and hold harmless Biokeys and its officers, directors and employees, in respect of any and all claims, actions, suits or other proceedings and any and all losses, costs, expenses, liabilities, fines, penalties, interest, and damages, whether or not arising out of any claim, action, suit or other proceeding (and including reasonable counsel and accountants' fees and expenses and all other reasonable costs and expenses of investigation, defense or settlement of claims and amounts paid in settlement) incurred by, imposed on or borne by Biokeys or such other

persons (collectively, "Damages") resulting from the breach of any of the representations, warranties or agreements made by BioQuest and Merger Sub in this Agreement.

9.05 INDEMNIFICATION BY BIOQUEST PRINCIPALS. (a) By their separate signatures to this Agreement, Louis R. Reif and Warren C. Lau (the "BioQuest Principals") agree jointly and severally, to indemnify and hold harmless Biokeys, and its officers, directors and employees, from and against any and all Damages arising out of any inaccuracy or breach of any representation, warranty

or covenant by BioQuest or Merger Sub relating to (i) any funded or unfunded indebtedness of BioQuest or Merger Sub or (ii) any contractual obligation of BioQuest or Merger Sub in this Agreement.

9.06 LIMITATIONS ON INDEMNIFICATION.

Notwithstanding anything to the contrary contained in this Agreement, the following limitations shall apply to any claim for indemnification asserted by any party to this Agreement or by any other person or entity under the provisions of this Article IX:

(a) No right of indemnification shall arise in respect of any Damages based on a transaction, event or incident occurring more than one year prior to the date of this Agreement.

(b) No right of indemnification shall arise in respect of any Damages based on any claim, action, suit or other proceeding initiated more than one year after the Effective Time.

(c) The maximum liability of Biokeys or any Biokeys Principals, or of BioQuest or Merger Sub or any BioQuest Principals, for Damages under any indemnification provision of this Agreement shall not exceed the amounts available and proceeds generated (whether in cash or in securities) from an Indemnification Fund as defined and to be established and administered as set forth in Section 9.07 below.

9.07 INDEMNITY FUND; ESCROW.

In order to secure the indemnification obligations set forth in this Article IX, the parties agree that an indemnification fund (the "Indemnification Fund") shall be established and administered, consisting initially of shares of BioQuest Common Stock to be deposited in escrow by the Biokeys Principals and the BioQuest Principals, respectively, as follows:

(a) Upon consummation of the Merger, two Biokeys Principals, Dr. Francis O'Donnell, Jr. and Thomas DePetrillo, will jointly deposit in escrow for the benefit of BioQuest and Merger Sub and their respective officers, directors and employees (the "Escrowed Biokeys Shares"), an aggregate of 250,000 shares out of the total number of shares of BioQuest Common Stock to be received by such Biokeys Principals as a result of the Merger. The Escrowed Biokeys Shares will be held as security for the performance of indemnification obligations in favor of BioQuest and Merger Sub and their respective officers, directors, employees and successors and assigns as set forth

in Sections 9.02 and 9.03 above, and shall be administered, applied, disbursed and distributed, as set forth in a separate escrow agreement ("the Biokeys Escrow Agreement"), to be executed and delivered at the Closing by the parties and by counsel to BioQuest and counsel to Biokeys as joint escrow agents, in the form annexed to this Agreement as Exhibit C.

(b) Upon consummation of the Merger, the BioQuest Principals will jointly deposit in escrow, for the benefit of Biokeys and its officers, directors and employees (the "Escrowed BioQuest Shares"), an aggregate of 250,000 shares out of the total number of shares of BioQuest Common Stock to be retained and held by such BioQuest Principals immediately prior to the Effective Time. The Escrowed BioQuest Shares will be held as security for the performance of indemnification obligations in favor of Biokeys and its officers, directors and employees as set forth in Sections 9.04 and 9.05 above, and shall be administered, applied, disbursed and distributed, as set forth in a separate escrow agreement ("the BioQuest Escrow Agreement"), to be executed and delivered at the Closing by the parties and by counsel to BioQuest and counsel to Biokeys as joint escrow agents, in the form annexed to this Agreement as Exhibit D.

(c) At the termination of the Biokeys Escrow Agreement, any Escrowed Biokeys Shares not previously applied or required to be applied to satisfy indemnification obligations under the provisions of Sections 9.02 or 9.03 above shall be returned to the Biokeys Principals contributing such Shares in the same proportion in which such Shares were contributed by each such Biokeys Principal at the Closing. At the termination of the BioQuest Escrow Agreement, any Escrowed BioQuest Shares not previously applied or required to be applied to satisfy indemnification obligations under the provisions of Sections 9.04 or 9.05 above shall be returned to the BioQuest Principals contributing such Shares in the same proportion in which such Shares were contributed by each such BioQuest Principal at the Closing.

9.08 INDEMNIFICATION PROCEDURE FOR CLAIMS. Whenever any claim shall arise for indemnification hereunder, the party entitled to indemnification (the

"indemnified party") shall promptly notify in writing the other party or parties (the "indemnifying party") of the claim and, when known, the facts constituting the basis for such claim; provided, that the indemnified party's failure to give such written notice shall not affect any rights or remedies of an indemnified party hereunder with respect to indemnification for damages except to the extent that the indemnifying party is materially prejudiced thereby. In the event of any claim for indemnification hereunder resulting from or in connection with any claim or legal proceedings by a third party, the written notice to the indemnifying party shall specify, if known, the amount or an estimate of the amount of the liability arising therefrom. The indemnified party shall not settle or compromise any claim by a third party for which it is entitled to indemnification hereunder, without the prior written consent of the indemnifying party (which shall not be unreasonably withheld), unless suit shall have been instituted against it and the indemnifying party shall not have taken control of and conducted in a diligent manner the defense of such suit after notification thereof as provided in this Agreement.

9.09 DEFENSE BY INDEMNIFYING PARTY. In connection with any claim giving rise to an indemnification right hereunder or resulting from or arising out of any claim or legal proceeding by

a person who is not a party to this Agreement, the indemnifying party at its sole cost and expense may, upon written notice to the indemnified party, assume the defense of any such claim or legal proceeding if it acknowledges to the indemnified party in writing its obligations to indemnify the indemnified party with respect to all elements of such claim, and thereafter diligently conducts the defense thereof with counsel reasonably acceptable to the indemnified party. If the indemnifying party acknowledges in writing as specified above that it shall assume the defense of any such action, then the indemnifying party shall keep the indemnified party informed with respect to the defense of such action and the indemnified party shall be entitled to participate in (but not control) the defense of such action, with its counsel and at its own expense. If (A) the indemnifying party does not acknowledge in writing as specified above that it shall assume or fails to conduct in a diligent manner the defense of any such claim or litigation resulting therefrom, or (B) the indemnified party shall have reasonably concluded that there may be one or more legal defenses available to it which are different from, or, additional to those available to the indemnifying party or other indemnified parties with respect to such claim or litigation, then, (i) the indemnified party may defend against such claim or litigation, in such manner as it may deem appropriate, including, without limitation, settling such claim or litigation, after giving notice of the same to the indemnifying party, on such terms as the indemnified party may deem appropriate, and (ii) the indemnifying party shall be entitled to participate in (but not control) the defense of such action, with its counsel and at its own expense. If the indemnifying party thereafter seeks to question the manner in which the indemnified party defended such third party claim or the amount or nature of any such settlement, the indemnifying party shall have the burden to prove by a preponderance of the evidence that the indemnified party did not defend or settle such third party claim in a reasonably prudent manner. Each party agrees to cooperate fully with the other, such cooperation to include, without limitation, attendance at depositions and the provisions of relevant documents as may be reasonably requested by the indemnifying party; provided, that the indemnifying party will hold the indemnified party harmless from all of its expenses, including reasonable attorneys' fees, incurred in connection with such cooperation by the indemnified party.

X. MISCELLANEOUS.

10.01. EXPENSES. Regardless of whether the transactions contemplated by this Agreement are consummated, each party shall pay its own respective fees and expenses incident to the negotiation, preparation and execution of this Agreement (including legal and accounting fees and expenses).

10.02. NOTICES. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be delivered in person or mailed by certified mail, return receipt requested or sent by Federal Express, express mail or similar overnight delivery or courier service or delivered, or delivered by telecopy, and confirmed by another notification method permitted hereunder, at the address of such party set forth in the preamble to this Agreement (or to such other address as the party shall have furnished in writing in accordance with the provisions of this Section 10.02) with copies (which copies shall not constitute notice) as follows:

If to Biokeys: Biokeys, Inc.
9948 Hilbert St.
Suite 100
San Diego, CA 92131
Attn: Nicholas Jon Virca

With a copy to: Camhy Karlinsky & Stein LLP
1740 Broadway, 16th Floor
New York, NY 10019
Attn: Michael B. Kupin, Esq.

If to BioQuest or

Merger Sub: BioQuest, Inc.
333 N. Sam Houston Parkway,
Suite 1035
Houston, TX 77060
Attention: Warren Lau, President

With a copy to: Bresler Goodman & Unterman LLP
521 Fifth Avenue
28th Floor
New York, NY 10175
Attn: Seymour Bucholz, Esq.

Any notice or other communication given by certified mail shall be deemed given three business days after certification thereof, except for a notice changing a party's address which will be deemed given at the time of receipt thereof. Any notice given by other means permitted by this Section 10.02 shall be deemed given at the time of receipt hereof.

10.03. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REFERENCE TO CONFLICT OF LAW PRINCIPLES) EXCEPT TO THE EXTENT MANDATORILY GOVERNED BY THE LAWS OF THE STATE OF DELAWARE. BIOQUEST AND BIOKEYS AND ALL OTHER SIGNATORIES HERETO EACH HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT SITTING IN NEW YORK COUNTY, NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. ALL DISPUTES ARISING UNDER THIS AGREEMENT SHALL BE HEARD AND DETERMINED IN SUCH STATE COURT OR SUCH FEDERAL COURT. THE SIGNATORIES HERETO EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM OR IMPROPER VENUE TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING.

10.04. SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal or

incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner to the fullest extent permitted by applicable law in order that the Merger may be consummated as originally contemplated to the fullest extent possible.

10.05. ASSIGNMENT; BINDING EFFECT; BENEFIT. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties hereto. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the signatories hereto or their respective successors and permitted assigns any rights or remedies under or by reason of this Agreement.

10.06. HEADINGS. The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

10.07. ENTIRE AGREEMENT. This Agreement (including all Exhibits and Schedules) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings among the parties with respect thereto. No addition to or modification of any provision of this Agreement shall be binding upon any party hereto unless made in writing and signed by all parties hereto.

10.08. COUNTERPARTS. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Execution and delivery of this Agreement by exchange of facsimile copies bearing the facsimile signature of a party hereto shall constitute a valid and binding execution and delivery of this Agreement by such party.

10.09. WAIVERS. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provisions, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.

IN WITNESS WHEREOF, this Agreement has been executed on behalf of each of the parties hereto as of the date first above written.

BIOQUEST, INC.

By: /s/ LOUIS R. REIF

Louis R. Reif
Chief Executive Officer

BIOQUEST ACQUISITION CORP.

By: /s/ LOIS R. REIF

Louis R. Reif
Chief Executive Officer

BIOKEYS, INC.

By: /s/ NICHOLAS JON VIRCA

Nicholas Jon Virca
President

Agreed as to Sections 9.05 and 9.07:
BioQuest Principals:

/s/ LOUIS R. REIF

Louis R. Reif

/s/ WARREN C. LAU

Warren C. Lau

Agreed as to Sections 9.03 and 9.07:
Biokeys Principals:

/s/ NICHOLAS JOHN VIRCA

Nicholas Jon Virca

/s/ DR. FRANCIS O'DONNELL, JR., M.D.

Dr. Francis O'Donnell, Jr., M.D.

/s/ THOMAS DEPETRILLO

Thomas DePetrillo

Exhibit 3.1

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

BIOQUEST, INC.

UNDER SECTION 242 OF THE
DELAWARE GENERAL CORPORATION LAW

Pursuant to the provisions of Section 242 of the General Corporation Law, the undersigned, being the President of the corporation, hereby certifies that:

FIRST: The name of the corporation is BioQuest, Inc.

SECOND: The amendment to the Certificate of Incorporation effected by this Certificate is as follows:

(a) Paragraph FIRST of the Certificate of Incorporation, relating to the name of the corporation, is hereby amended to read as follows:

"FIRST: The name of the corporation is:
Biokeys Pharmaceuticals, Inc."

THIRD: The aforesaid amendment of the Certificate of Incorporation was duly adopted and approved in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I hereunto sign my name and affirm that the statements made herein are true under the penalties of perjury, this 12th day of October, 2000.

BIOQUEST, INC.

BY: /s/ WARREN C. LAU

Warren C. Lau,
President

Exhibit 3.2

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
BIOQUEST, INC.

UNDER SECTION 242 OF THE
DELAWARE GENERAL CORPORATION LAW

Pursuant to the provisions of Section 242 of the General Corporation Law, the undersigned, being the President of the corporation, hereby certifies that:

FIRST: The name of the corporation is Bioquest, Inc.

SECOND: The amendment to the Certificate of Incorporation effected by this Certificate is as follows:

(a) Paragraph FIRST of the Certificate of Incorporation, relating to the name of the corporation, is hereby amended to read as follows:

"FIRST: The name of the corporation is:
Biokeys Pharmaceuticals, Inc."

THIRD: The aforesaid amendment of the Certificate of Incorporation was duly adopted and approved in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I hereunto sign my name and affirm that the statements made herein are true under the penalties of perjury, this 12th day of October, 2000.

BIOQUEST, INC.

BY: /s/ WARREN C. LAU

Warren C. Lau,
President

Exhibit 3.3

CERTIFICATE OF MERGER

OF

BIOQUEST ACQUISITION CORP.

(A DELAWARE CORPORATION)

INTO

BIOKEYS, INC.

(A DELAWARE CORPORATION)

PURSUANT TO SECTION 251 OF THE GENERAL
CORPORATION LAW OF THE STATE OF DELAWARE

BIOKEYS, INC., a corporation organized and existing under the laws of the State of Delaware, DOES HEREBY CERTIFY THAT:

FIRST: The constituent corporations to the merger are Biokeys, Inc., a Delaware corporation, and BioQuest Acquisition Corp., a Delaware corporation.

SECOND: An agreement of merger has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations in accordance with the requirements of Section 251 of the General Corporation Law of Delaware.

THIRD: The name of the surviving corporation shall be Biokeys, Inc.

FOURTH: The Certificate of Incorporation of Biokeys, Inc. as the surviving corporation shall be the certificate of incorporation of Biokeys, Inc. prior to the merger, and amended in the following manner:

Article II shall be amended to read:

"ARTICLE II
REGISTERED OFFICE

The address of the registered office of the Corporation in the the State of Delaware is c/o United Corporate Services, Inc., 15 East North St., in the City of Dover, County of Kent. The name of its registered office at such address is United Corporate Services, Inc."

ARTICLE IV shall be amended to read in its entirety as follows:

"ARTICLE IV

CAPITAL STOCK

The total number of shares of capital stock which the Corporation shall have the authority to issue is 25,000,000 shares which shall be common stock, par value $0.01 per share ("Common Stock")."

ARTICLE VI shall be amended by deleting therefrom Section 4.

FIFTH: The Merger Agreement is on file at the principal office of Biokeys, Inc. located at 11466 Winding Ridge Drive, San Diego, California and shall be furnished without cost upon request to any stockholder of Biokeys, Inc. or BioQuest Acquisition Corp.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this 10th day of October, 2000, and affirms that the statements herein and the contents hereof are true under the penalties of perjury.

BIOKEYS, INC.
(a Delaware corporation)

By: /s/ NICHOLAS JON VIRCA

Nicholas Jon Virca,
President

Exhibit 3.4

CERTIFICATE OF INCORPORATION

OF

BIOQUEST ACQUISITION CORP.

The undersigned, a natural person of legal age, for the purpose of organizing a corporation pursuant to the General Corporation Law of the State of Delaware, hereby certifies that:

FIRST: The name of the corporation is

BIOQUEST ACQUISITION CORP.

SECOND: The address, including street, number, city, and county, of the registered office of the corporation in the State of Delaware is c/o United Corporate Services, Inc., 15 East North Street, in the City of Dover, County of Kent, State of Delaware 19901, and the name of the registered agent at said address is United Corporate Services, Inc.

THIRD: The nature of the business and the purposes to be conducted and promoted by the corporation are to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity, for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the corporation shall have authority to issue is Two Million (2,000,000) shares of Common Stock, par value $.01 per share.

FIFTH: The name and address of the incorporator are as follows:

NAME	ADDRESS
Michael Barr	10 Bank Street White Plains, New York 10606

SIXTH: The corporation is to have perpetual existence.

SEVENTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under ss. 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution of any receiver or receivers appointed for this corporation under ss. 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the indebtedness held by such creditors or class of creditors, and/or three-fourths of the shares held by the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on the corporation.

EIGHTH: For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation, and regulation of the powers of the corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

(1) The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-Laws.

(2) The Board of Directors shall have power without the assent or vote of the stockholders:

(a) To make, alter, amend, change, add to or repeal the

By-Laws of the corporation; to fix and vary the amount to be reserved for any proper purpose; to authorize and cause to be executed mortgages and liens upon all or any part of the property of the corporation; to determine the use and disposition of any surplus or net profits; and to fix the times for the declaration and payment of dividends.

(b) To determine from time to time whether, and at what times and places, and under what conditions the accounts and books of the corporation (other than the stock ledger) or any of them, shall be open to the inspection of the stockholders..

(3) In addition to the powers and authorities hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation; subject, nevertheless, to the provisions of the General Corporation Law of the State of Delaware, of this certificate, and to any

By-Laws from time to time; provided, however, that no By-Laws so made shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been made.

NINTH: The personal liability of the directors of the corporation is hereby eliminated to the fullest extent permitted by the provisions of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented.

TENTH: The corporation shall, to the fullest extent permitted by the provisions of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have the power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said Law, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

ELEVENTH: From time to time any of the provisions of this certificate of incorporation may be amended, altered, or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted as prescribed by said laws, and all rights at any time conferred upon the stockholders of the corporation by this certificate of incorporation are granted subject to the provisions of this Article ELEVENTH.

IN WITNESS WHEREOF, the undersigned hereby executes this document and affirms that the facts set forth herein are true under the penalties of perjury this 19th day of May, 2000.

/s/ MICHAEL BARR

MICHAEL BARR -- Incorporator

EXHIBIT 3.6

AMENDED AND RESTATED

BYLAWS

OF

BIOKEYS PHARMACEUTICALS, INC.

(A DELAWARE CORPORATION)

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE. The registered office of the corporation shall be fixed in the Certificate of Incorporation of the corporation.

1.2 OTHER OFFICES. The board of directors may at any time establish the principal office and any branch or subordinate offices of the corporation at any place or places deemed advisable.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors.

2.2 ANNUAL MEETING.

(a) The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected, and any other proper business may be transacted.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date specified in the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the

stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder

proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (b), the chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting in accordance with the provisions of this paragraph (b), and, if he should so determine, he shall declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(c) Only persons who are nominated in accordance with the procedures set forth in this paragraph (c) shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (c). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 2.2. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including, without limitation, such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 2.2. At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (c). The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

2.3 SPECIAL MEETING. A special meeting of the stockholders may be called at any time by the board of directors, the president or the chairman, but such special meeting may not be called by any other person or persons. Only such business shall be considered at a special meeting of stockholders as shall have been stated in the notice for such meeting.

2.4 ORGANIZATION. Meetings of stockholders shall be presided over by the president, the chairman or, in his or her absence, by a chairman designated by the board of directors, or in the absence of such designation, by a chairman chosen at the meeting by the vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote thereat. The secretary, or in his or her absence an assistant secretary, or in the absence of the secretary and any assistant secretary, a person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

The board of directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the board of directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting. Unless determined by the board of directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS. All notices of meetings of

stockholders shall be sent or otherwise given in accordance with Section 2.6 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE. Notice of any meeting of stockholders shall be given either personally or by mail, telecopy, telegram or other electronic or wireless means. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telecopy, telegram or other electronic or wireless means.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice or report.

2.7 QUORUM. The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders by the vote of the holders of a majority of the stock, present in person or represented by proxy shall have power to adjourn the meeting.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the Certificate of Incorporation or these Bylaws, a vote of a greater number or voting by classes is required, in which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

2.8 ADJOURNED MEETING; NOTICE. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the voting power of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.7 of these Bylaws.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than thirty (30) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.5 and 2.6 of these Bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.9 VOTING. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these Bylaws, subject to applicable provisions of the General Corporation Law of Delaware.

Except as may be otherwise provided in the Certificate of Incorporation, by instruments setting forth the voting rights of specific classes or series of stocks, by these Bylaws or by applicable law, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

2.10 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT. The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy.

Attendance by a person at a meeting shall constitute a waiver of notice of and presence at that meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

2.11 ACTION BY WRITTEN CONSENT. Subject to the rights of the holders of the shares of any series of preferred stock or any other class of stock or series thereof having a preference over the common stock as to dividends or upon liquidation, any action required or permitted to be taken by the stockholders of the corporation may be effected either at a duly called annual or special meeting of stockholders of the corporation or by a consent in writing by such stockholders obtained in accordance with the applicable provisions of the General Corporation Law of Delaware.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS. For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by applicable law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new

record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these Bylaws.

2.13 PROXIES. Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy, which may be in the form of a telegram, cablegram, or other means of electronic transmission, signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or

by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the secretary of the corporation.

A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the corporation.

2.14 INSPECTORS OF ELECTION. Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment and to determine such matters as quorum, validity of proxies and ballots, voting eligibility, and the tabulation of votes. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

The inspectors of election shall execute an oath of office agreeing to perform, and shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

ARTICLE III

DIRECTORS

3.1 POWERS. Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be

approved by the stockholders, the business and affairs of the corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the board of directors.

3.2 NUMBER AND TERM OF OFFICE. The authorized number of directors shall be not less than three (3) nor more than nine (9). Within such limits, the number of directors shall be initially fixed at three (3), which number may be changed by resolution of the board of directors. An indefinite number of directors may be fixed, or the definite number of directors may be changed, by a duly adopted amendment to the Certificate of Incorporation or by an amendment to these Bylaws duly adopted by the stockholders or the board of directors.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS. Except as provided in Section 3.4 of these Bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. Directors need not be stockholders unless so required by the Certificate of Incorporation or by these Bylaws.

3.4 RESIGNATION AND VACANCIES. Any director may resign on giving written notice to the president, the chairman, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective.

Unless otherwise provided in the Certificate of Incorporation or by these Bylaws, vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director. Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified. Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the Certificate of Incorporation or these Bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

3.5 REMOVAL. Unless otherwise restricted by statute, by the Certificate of Incorporation or by these Bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of seventy-five percent (75%) of the shares then entitled to vote at an election of directors.

3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE. Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board of directors. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communications equipment, so long as all directors participating in the meeting can hear one another, and all such directors shall be deemed to be present in person at the meeting.

3.7 REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed in advance by the board of directors.

3.8 SPECIAL MEETINGS; NOTICE. Special meetings of the board of directors for any purpose or purposes may be called at any time by the president, the chairman, the secretary or by any two (2) or more of the directors.

Notice of the time and place of special meetings of the board of directors shall be delivered personally or by telephone to each director or sent by mail, telecopy, telegram or other electronic or wireless means, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation or if the address is not readily ascertainable, notice shall be addressed to the director at the city or place in which the meetings of directors are regularly held. If the notice is mailed, it shall be deposited in the United States mail at least three (3) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone, telecopy, telegram or other electronic or wireless means, it shall be delivered personally or by telephone or other electronic or wireless means at least twenty-four (24) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to

believe will promptly communicate it to the director. A notice of a special meeting of the board of directors need not state the purpose of such meeting, and, unless indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.9 QUORUM. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to fill vacancies in the board of directors as provided in Section 3.4 and to adjourn as provided in Section 3.11 of these Bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present

shall be regarded as the act of the board of directors, subject to the provisions of the Certificate of Incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.10 WAIVER OF NOTICE. Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. The transactions of any meeting of the board, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice. All such waivers shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.11 ADJOURNMENT. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.12 NOTICE OF ADJOURNMENT. Notice of the time and place of holding an adjourned meeting need not be given if such time and place are announced, unless the meeting is adjourned for more than forty-eight (48) hours. If the meeting is adjourned for more than forty-eight (48) hours, then notice of the time and place of the adjourned meeting shall be given.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING. Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board of directors individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.14 ORGANIZATION. Meetings of the board of directors shall be presided over by the president or the chairman, or, in his or her absence, by a president pro tem chosen by a majority of the directors

present. The secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

3.15 FEES AND COMPENSATION OF DIRECTORS. Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS. The board of directors may designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board of directors. The board of directors may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The purposes and authority of any committee shall be as provided in the resolution of the board, but no such committee shall have power or authority by itself to (i) approve or adopt or recommend to the stockholders any action or matter that requires the approval of the stockholders or (ii) adopt, amend or repeal any Bylaw of the corporation.

4.2 MEETINGS AND ACTION OF COMMITTEES. To the extent feasible, meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.6 (place of meetings), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment), Section 3.12 (notice of adjournment), and Section 3.13 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members, provided, however, that the board of directors may adopt rules

for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS. The officers of this corporation shall consist of a chairman, a president, one or more vice presidents, a secretary, a chief financial officer who will also serve as a treasurer, and such other officers and assistant officers as may be determined from time to time by the board of directors, all of whom shall be chosen in such manner and hold their offices for such terms as the board of directors may prescribe. Any two or more of such offices may be held by the same person.

The board of directors may designate one or more vice presidents as executive vice presidents or senior vice presidents. The board of directors may from time to time designate the president or any other officer as the chief operating officer of the corporation.

5.2 TERMS OF OFFICE AND COMPENSATION. The term of office and salary of each of said officers and the manner and time of the payment of such salaries shall be fixed and determined by the board of directors and may be altered by said board from time to time at its pleasure, subject to the rights, if any, of said officers under any contract of employment.

5.3 REMOVAL; RESIGNATION OF OFFICERS AND VACANCIES. Any officer of the corporation may be removed at the pleasure of the board of directors at any meeting, or by vote of stockholders entitled to exercise the majority of voting power of the corporation at any meeting, or at the pleasure of any officer who may be granted such power by a resolution of the board of directors. Any officer may resign at any time upon written notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. If any vacancy occurs in any office of the corporation, the board of directors may elect a successor to fill such vacancy for the remainder of the unexpired term and until a successor is duly chosen and qualified.

5.4 CHAIRMAN. Unless otherwise determined by the board of directors, the chairman shall be the chief executive officer of the corporation and shall have general direction of the affairs of the corporation and general supervision over its several officers, subject, however, to the control of the board of directors. The chairman shall, at each annual meeting and from time to time, report to the stockholders and the board of directors all matters within his knowledge which the interest of the corporation may require to be brought to their notice, may sign with the treasurer or an assistant treasurer, if any, or the secretary or an assistant secretary, if any, any or all certificates of stock of the corporation. The chairman shall preside at all meetings of the stockholders and at all meetings of the board of directors, may sign and execute in the name of the corporation all contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be delegated or permitted by the board of directors or by these Bylaws to some other officer or agent of the corporation, and in general shall perform such duties and, subject to the other provisions of these Bylaws and to the control of the board of directors, have such powers incident to the office of chairman and perform such other duties and have such other powers as from time to time may be assigned to him by the board of directors.

5.5 PRESIDENT. The president shall be the chief operating officer of the corporation and shall exercise and perform such powers and duties, including the signing and execution of contracts and instruments, as may from time to time be assigned to him by the board of directors or as may be prescribed by these Bylaws. The president shall report to the board of directors.

5.6 UNAVAILABILITY OF CHAIRMAN. In case of the absence, disability or death of the chairman, the president or, if he is not available, a vice president, shall exercise all the powers and perform all the duties of the chairman. If there is more than one elected vice president, the order in

which the elected vice presidents shall succeed to the powers and duties of the chairman shall be as fixed by the board of directors.

5.7 CHIEF FINANCIAL OFFICER. The chief financial officer shall be the treasurer of the corporation and shall have the care an custody of the corporate funds and other valuable effects, including securities, and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. The treasurer shall disburse the funds of the corporation as may be ordered by the chairman, president, or the board of directors, taking proper vouchers for such disbursements, and shall render to the chairman, president and board of directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation; and, in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him by the chairman, president, or the board of directors.

5.8 SECRETARY. The powers and duties of the secretary are:

(a) To keep a book of minutes at the principal office of the corporation, or such other place as the board of directors may order, of all meetings of its directors and stockholders with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

(b) To keep the seal of the corporation and affix the same to all instruments which may require it.

(c) To keep or cause to be kept at the principal office of the corporation, or at the office of the transfer agent or agents, a share register, or duplicate share registers, showing the names of the stockholders and their addresses, the number of and classes of shares, and the number and date of cancellation of every certificate surrendered for cancellation.

(d) To keep a supply of certificates for shares of the corporation, to fill in all certificates issued, and to make a proper record of each such issuance; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.

(e) To transfer upon the share books of the corporation any and all shares of the corporation; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents, and the method of transfer of each certificate shall be subject to the reasonable regulations of the transfer

agent to which the certificate is presented for transfer, and also, if the corporation then has one or more duly appointed and acting registrars, to the reasonable regulations of the registrar to which the new certificate is presented for registration; and provided, further that no certificate for shares of stock shall be issued or delivered or, if issued or delivered, shall have any validity whatsoever until and unless it has been signed or authenticated in the manner provided in Section 8.5 hereof.

(f) To make service and publication of all notices that may be necessary or proper, and without command or direction from anyone. In case of the absence, disability, refusal, or neglect of the secretary to make service or publication of any notices, then such notices may be served and/or published by an assistant secretary or by the president or a vice president, or by any person thereunto authorized by either of them or by the board of directors or by the holders of a majority of the outstanding shares of the corporation.

(g) Generally to do and perform all such duties as pertain to the office of secretary and as may be required by the board of directors.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of

Delaware, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation; provided, however, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers and, provided, further, that the corporation shall not be required to indemnify any director or officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized in advance by the board of directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the General Corporation Law of Delaware or (iv) such indemnification is required to be made pursuant to an individual contract. For purposes of this Section 6.1, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation.

6.2 INDEMNIFICATION OF OTHERS. The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each

of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation.

6.3 INSURANCE. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

6.4 EXPENSES. The corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or officer in connection with such proceeding, upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this Bylaw or otherwise; provided, however, that the corporation shall not be required to advance expenses to any director or officer in connection with any proceeding (or part thereof) initiated by such person unless the proceeding was authorized in advance by the board of directors of the corporation.

Notwithstanding the foregoing, unless otherwise determined pursuant to Section 6.5, no advance shall be made by the corporation to an officer of the corporation (except by reason of the fact that such officer is or was a director of the corporation in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to the proceeding, or (ii) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

6.5 NON-EXCLUSIVITY OF RIGHTS. The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the General Corporation Law of Delaware.

6.6 SURVIVAL OF RIGHTS. The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

6.7 AMENDMENTS. Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS. The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTOR. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may,

in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS. From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The board of directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 FISCAL YEAR. The fiscal year of this corporation shall begin on the first day of January of each year and end on the last day of December of such year.

8.5 STOCK CERTIFICATES. There shall be issued to each holder of fully paid shares of the capital stock of the corporation a certificate or certificates for such shares. Every holder of shares of the corporation shall be entitled to have a certificate signed by, or in the name of the corporation by,

the president or the chairman or the president or a vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

8.6 SPECIAL DESIGNATION ON CERTIFICATES. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.7 LOST CERTIFICATES. The corporation may issue a new share certificate or new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate. The board of directors may adopt such other provisions and restrictions with reference to lost certificates, not inconsistent with applicable law, as it shall in its discretion deem appropriate.

8.8 CONSTRUCTION; DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person"

includes both a corporation and a natural person.

8.9 PROVISIONS ADDITIONAL TO PROVISIONS OF LAW. All restrictions, limitations, requirements and other provisions of these Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

8.10 PROVISIONS CONTRARY TO PROVISIONS OF LAW. Any article, section, subsection, subdivision, sentence, clause or phrase of these Bylaws which, upon being construed in the manner provided in Section 8.9 hereof, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these Bylaws, it being hereby declared that these Bylaws would have been adopted and each article, section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

8.11 NOTICES. Any reference in these Bylaws to the time a notice is given or sent means, unless otherwise expressly provided, the time a written notice by mail is deposited in the United States mails, postage prepaid; or the time any other written notice is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or the time any oral notice is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

ARTICLE IX

AMENDMENTS

Subject to Section 6.7 hereof, the original or other Bylaws of the corporation may be adopted, amended or repealed by the board of directors or by the stockholders entitled to vote.

Whenever an amendment or new bylaw is adopted, it shall be copied in the corporation's records, next to the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

CERTIFICATE OF DESIGNATION

OF

BIOQUEST, INC.

Certificate of Designations, Preferences
Rights and Limitations of
SERIES A 8% CONVERTIBLE PREFERRED STOCK
under Section 151 of the Delaware General Corporation Law

Warren C. Lau and Robert Whitworth HEREBY CERTIFY that they are, respectively, the President and Secretary, of BIOQUEST, INC. (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, and that, pursuant to (i) authority conferred upon the Board of Directors by the Corporation's Certificate of Incorporation and (ii) Section 151 of the Delaware General Corporation Law, the Board of Directors of the Corporation has duly adopted the following resolution providing for the issuance of a series of convertible preferred stock, as follows:

RESOLVED, that, pursuant to authority expressly granted to and vested in the Board of Directors by the provisions of the Certificate of Incorporation and Section 151 of the Delaware General Corporation Law, the Board of Directors hereby creates a series consisting of 8,000 shares of Series A 8% Convertible Preferred Stock of the Corporation, and hereby fixes the powers, designation, preferences and rights of the shares of such Series, and the qualifications, limitations, or restrictions thereof (in addition to those provisions set forth in the Certificate of Incorporation which may be applicable to the Preferred Stock), as follows:

FIRST: Pursuant to authority contained in the Corporation's Certificate of Incorporation, Eight Thousand (8,000) authorized but unissued shares of the Corporation's capital stock, $.01 par value, have been duly reclassified by the Board of Directors of the Corporation as authorized but unissued shares of Series A 8% Convertible Preferred Stock.

SECOND: A description of the Series A 8% Convertible Preferred Stock and of the powers, designation, preferences and rights of the shares of such Series, and the qualifications, limitations, or restrictions thereof, is as follows:

1. DESIGNATION AND PAR VALUE.

The formal designation of the shares so reclassified by the Board of Directors shall be Series A 8% Convertible Preferred Stock (referred to herein for convenience as "Series A Preferred Stock" or as "Preferred Shares"). The par value of Series A Preferred Stock is $.01 per share.

2. LIQUIDATION PREFERENCE AND RANKING.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the business and affairs of the Corporation, and before the holders of shares of Common Stock or any other class or series of stock of the Corporation ranking junior on liquidation to the Series A Preferred Stock shall be entitled to any payment on account of such shares, the holders of whole or fractional Series A Preferred Stock then outstanding shall be entitled to receive, as a liquidation preference, an amount equal to One Thousand (US$1,000.00) U.S. Dollars per share (the "Original Cost"), plus any accrued but unpaid dividends (the Original Cost plus such accrued but unpaid dividends being referred to as the "Liquidation Preference") to which such shareholders have become entitled and which have not theretofore been paid. After the holders of Series A Preferred Stock shall have received such payment of the Liquidation Preference plus all accrued and unpaid dividends in the course of such liquidation, dissolution or winding up, they shall have no right or claim to any of the remaining assets of the Corporation.

(b) If upon any liquidation, dissolution or winding up, the Corporation shall have insufficient funds to permit payment to the holders of Series A Preferred Stock then

outstanding of the entire amount to which they are entitled as a Liquidation Preference thereunder, then such funds as are available for such purpose shall be distributed among such holders on the basis of the number of shares of Series A Preferred Stock held by each such holder so that, as nearly as may be practicable, the amount each such holder shall receive shall represent the same proportion of such available funds as such holder's total holding of shares of Series A Preferred Stock represents of the total shares of Series A Preferred Stock at the time outstanding.

(c) For all purposes under this Certificate of Designation, all shares of Series A Preferred Stock shall be of equal rank with each other.

3. DIVIDENDS.

(a) The holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors of the Corporation, out of capital surplus or earnings at the time legally available therefor, dividends at the annual rate of 8% per share, payable (at the election of the holder) in cash or in fully-paid and non-assessable whole and/or fractional shares of Series A Preferred Stock which shall be valued, for this purpose, at an amount equal to the Original Cost. Dividends shall accrue, whether or not declared, unless such dividends are then prohibited by the provisions of the Delaware General Corporation Law or the Corporation's Certificate of Incorporation.

(b) Dividends shall be cumulative and shall be payable semi-annually on June 30 and on December 31, to stockholders of record on the immediately preceding June 15th and December 15th, respectively, or such other record date fixed for the purpose by the Board of Directors. Dividends payable with respect to any shares of Series A Preferred Stock for the initial dividend period and for any period less than a full six-month period shall accrue from the date of issuance of such shares of Series A Preferred Stock on which such dividends are payable,

and shall be computed and apportioned on the basis of a 180-day period composed of six 30-day months. Holders of Series A Preferred Stock shall not be entitled to any dividends in excess of the full dividends provided for herein, and no interest or sum of money in lieu of interest shall be payable in respect of any dividend payment which may be in arrears. No dividends shall be payable on any fractional or full shares of Series A Preferred Stock which shall have been declared, paid or distributed as dividends on outstanding Preferred Shares.

4. NO DIVIDENDS OR DISTRIBUTIONS TO JUNIOR SECURITIES.

Except as may be otherwise provided in this Certificate of Designation, so long as any shares of Series A Preferred Stock are outstanding, no dividends shall be declared or paid or set aside for payment, and no other distribution shall be declared or made, upon any Common Stock of the Corporation or upon any other shares of a class or series of stock which is junior in right and ranking to the Series A Preferred Stock, unless all amounts then due to the holders of Series A Preferred Stock, including the dividends provided for herein, have been paid.

5. VOTING RIGHTS.

Except as otherwise expressly provided herein or as provided by law, the Series A Preferred Stock shall have no voting rights. However, notwithstanding the foregoing, the written consent or affirmative vote of the holders of a majority of the outstanding Series A Preferred Stock is required to approve (i) any proposed amendment to the Corporation's Certificate of Incorporation that would materially alter or change the powers, preferences, or special rights of the Series A Preferred Stock so as to affect the holders adversely, and (ii) any plan of merger or consolidation that contains provisions which, if contained in a proposed amendment to the Corporation's Certificate of Incorporation, would have entitled the holders of the Series A Preferred Stock to vote, as a class, on the issue.

6. CONVERSION RIGHTS.

The Preferred Shares and any fractional Preferred Shares (including, for such purposes, any shares and fractional shares issued or issuable as dividends) will be entitled to the following rights of exchange and

conversion, subject to any limitations and conditions provided in this Certificate of Designation:

(a) (i) The Series A Preferred Stock will be convertible into Common Stock at the election of the holder made at any time (i) after the Corporation becomes registered with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended or Securities Exchange Act of 1934, or (ii) six months after issuance of the Preferred Stock (the initial issuance date of such Preferred Stock to be referred to as the "Minimum Closing Date"), whichever occurs first. Each share of Series A Preferred Stock will be convertible into 250 shares of the Corporation's Common Stock, which is equal to a conversion price of US$4.00 per share. Each holder who elects to convert the Preferred Shares shall surrender and deliver to the Corporation or to the exchange agent or transfer agent designated for such purpose by the Corporation, certificates for the Preferred Shares being exchanged, or exchanged and converted as the case may be, as set forth in such holder's election as described in the immediately preceding sentence. Within five (5) business days thereafter, the Corporation will cause to be issued to each holder certificates representing shares of Common Stock being issued in exchange for such Preferred Shares.

(b) Other than as set forth in Paragraph (a) of this Section 6, the holders of Series A Preferred Stock will not have any right to convert their Preferred Shares prior to the

earlier of (i) the six month anniversary of the issuance of the Preferred Stock or (ii) the Corporation's issuance of a Redemption Notice as provided in Section 8.

(c) A right to convert Preferred Shares into shares of Common Stock under this Section 6 shall be exercised by a holder by delivering to the Corporation during regular business hours, or to such agent as may be designated by the Corporation, the original certificate or certificates for the shares to be converted, duly endorsed or assigned either in blank or to the Corporation, accompanied by written notice in substantially the form annexed hereto as Exhibit A, stating that the holder elects to convert such shares (or the amount thereof as to which the conversion right is to be exercised, which amount shall be not less than that represented by shares having an aggregate Original Cost of $5,000) and stating the name or names (with address and Social Security or Federal Taxpayer Identification Number or other applicable governmental identification) in which the certificate or certificates for the shares of Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when the aforesaid delivery is made (the "Conversion Date"). As promptly as practicable thereafter, the Corporation shall issue and deliver to such holder (or upon the written order of such holder) to the place designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder is entitled. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a stockholder of record on the applicable Conversion Date unless the transfer books of the Corporation are closed on that date, in which event such person shall be deemed to have become a stockholder of record on the next succeeding date on which the transfer books are open. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series A Preferred Stock surrendered for conversion, the Corporation shall issue and deliver to such holder, or upon

the written order of the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of Series A Preferred Stock representing the unconverted portion of the certificate so surrendered.

(d) The Corporation shall, at all times when Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock.

(e) All shares of Common Stock which may be issued in connection with the conversion provisions set forth herein will, upon issuance by the Corporation, be validly issued, fully paid and non-assessable. No

adjustment shall be made for dividends on any share of Series A Preferred Stock which is being converted (unless such dividends have been accrued and are unpaid as of the Conversion Date) or on any share of Common Stock issued on exercise of a holder's Conversion Right.

(f) No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock and, in lieu of any fractional shares to which the holder would otherwise be entitled, the number of shares of Common Stock issuable upon conversion shall be rounded to the nearest whole number.

(g) All shares of Series A Preferred Stock which shall have been surrendered for conversion or exchange as herein provided shall no longer be deemed to be outstanding, and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall immediately cease and terminate on the Conversion Date, with respect Preferred Shares which have been converted, and on the specified effective date of exchange for Preferred Shares

which have been exchanged, except only the right of the holders thereof to receive shares of Common Stock, in conversion or exchange therefor. Any shares of Series A Preferred Stock so converted or exchanged shall be retired and canceled and shall not be reissued, and the Corporation (without the need for stockholder action) may from time to time take such appropriate action as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

(h) The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series A Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series A Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

7. ADJUSTMENTS TO CONVERSION PRICE.

The Conversion Price (which is initially established at US$4.00 per share of Common Stock) in effect from time to time shall be subject to adjustment (to the nearest cent) from time to time as follows:

(a) If the Corporation, at any time after the Minimum Closing Date and at any time prior to the conversion of a Preferred Share shall have subdivided its outstanding shares of Common Stock by recapitalization, reclassification or split-up thereof, or if the Corporation shall have declared a stock dividend or distributed shares of Common Stock to its stockholders, the

Conversion Price immediately prior to such conversion shall be proportionately increased; and if the Corporation, prior to such conversion, shall have at any time combined the outstanding shares of Common Stock by recapitalization, reclassification or comparable combination thereof, the Conversion Price immediately prior to such conversion shall be proportionately increased.

(b) In case the Corporation, six months after the Minimum Closing Date, shall consolidate with or merge into another corporation or convey all or substantially all of its assets to another corporation, then, and in each such case, the Conversion Price shall be adjusted in such manner that the holder of Preferred Shares, upon the conversion thereof as provided in Section 6 above, at any time after the consummation of such consolidation, merger or conveyance, shall be entitled to receive the securities or property to which such holder would have been entitled upon such consummation if such holder had exercised his right to convert such Preferred Shares immediately prior thereto.

(c) In case the Corporation, within two years from the Minimum Closing Date, sells Common Stock in a private placement or in a underwritten public offering at a price per share which is less than the Conversion Price, the Corporation will disclose the terms to the holder of the Preferred Shares and will issue a sufficient number of additional shares of Common Stock to each holder of Preferred Shares so as to reduce the effective Conversion Price to the level established in such private placement or public offering.

(d) For purposes hereof, the term "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Corporation after the Minimum Closing Date, or the maximum number of shares of Common Stock issuable upon conversion or exchange of any securities (including, for this purpose, preferred stock other than the Preferred Shares, and notes and debentures) convertible into Common Stock ("Convertible Securities"), but not warrants or

options issued after the Minimum Closing Date, except to the extent such warrants or options are actually exercised.

(e) In the event the Corporation shall at any time after the Minimum Closing Date issue Additional Shares of Common Stock, (except for issuances of Common Stock described in paragraph (g) below) without consideration or for a consideration per share less than the applicable Conversion Price in effect immediately prior to such issuance (such amount being defined as the "Adjustment Base Price"), then and in such event, such Conversion Price shall be reduced, concurrently with such issuance, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction: (A) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issuance plus (2) the quotient derived by dividing the aggregate consideration received from such issuance of Additional Shares of Common Stock by the Adjustment Base Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued.

(f) For purposes of Paragraph (e) of this Section 7, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock referred to therein shall be computed as follows:

Cash and Property: Such consideration shall:

(I) insofar as it consists of cash, be computed at the gross amount of aggregate cash received by the Corporation, excluding amounts paid or payable for accrued interest and the costs of the issuance;

(II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(III) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board of Directors.

(g) Notwithstanding anything to the contrary contained in this Section 7 or elsewhere in this Certificate of Designation, the following issuances, transactions or occurrences shall be excluded from those events requiring any adjustment in accordance with this Section 7:

(i) The accrual or payment in kind of dividends on the Series A Preferred Stock;

(ii) The issuance or re-issuance of the Preferred Shares to any investors in the private placement offering of the Preferred Shares (or any subsequent issuance or reissuance to their transferees) and any exchange, conversion or redemption of any Preferred Shares (and of any shares of Series A Preferred Stock representing dividends paid in kind) in accordance with provisions governing such exchange, conversion or redemption as set forth in the Corporation's Articles of Incorporation, Certificate of Designation and By-Laws;

(iii) The issuance to any of the Corporation's executives, directors, employees and consultants of options, warrants or shares granted under any incentive, stock option, bonus or other benefit plan, program or policy of the Corporation, provided that such issuances in the aggregate do not exceed 15% in the aggregate of the Corporation's then outstanding shares of Common Stock;

(iv) The issuance of shares of Common Stock upon the exercise of any option or warrant of the Corporation outstanding on the Minimum Closing Date;

(v) The issuance of shares of Common Stock, or warrants or options for the purchase of shares of Common Stock, to pay, settle or compromise any Corporation obligations to suppliers, vendors, contractors, licensors and joint venture partners; and

(vi) The future issuance of shares, or options or warrants for the purchase of shares, in any previously negotiated private placement transaction which was pending between the Corporation and a United States technology or biotechnology investment fund before the Minimum Closing Date.

(h) The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, 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 to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 7 and in the

taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred Stock against impairment.

(i) Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 7, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preferred Stock, upon the request of such holder, a certificate setting forth such adjustment or readjustment and showing the facts upon which such adjustment or readjustment is based and the then Conversion Price.

8. REDEMPTION.

(a) The Corporation, at its sole option, expressed by resolution of its Board of Directors, may call for redemption and may redeem shares of Series A Preferred Stock in whole, or from time to time in part, upon notice as set forth below, at any time the closing price of the Common Stock of the Corporation remains at a level of at least US$8.00 per share for a period of at least 20 consecutive trading days, provided, however, that the Corporation is listed on the American Stock Exchange or the Nasdaq SmallCap Market System or the Nasdaq National Market System at the time of such redemption. The redemption price shall be equal to the Liquidation Preference.

(b) In addition, beginning at any time after July 1, 2003, the Corporation, at its sole option, expressed by resolution of its Board of Directors, may call for redemption and may redeem shares of Series A Preferred Stock in whole, or from time to time in part, upon notice as set forth below. The redemption price per share of Series A Preferred Stock shall be equal to 105% of the Liquidation Preference plus accrued and unpaid dividends.

(c) Notice of any redemption of the Series A Preferred Stock (the "Redemption Notice") shall be given at least 30 days prior to the date fixed in such notice for such redemption (the "Redemption Date") to each holder of record of shares of Series A Preferred Stock, at such holder's address as the same shall appear on the books of the Corporation. Such notice shall specify the time and place of redemption, the redemption price, and, if less than all the outstanding Preferred Shares are to be redeemed, shall also specify the proportion of shares which are to be redeemed.

(d) If any such notice of redemption shall have been duly given and if, on or before the Redemption Date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after the Redemption Date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such Redemption Date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption, without interest.

(e) From and after the giving of the notice of redemption, holders of Series A Preferred Stock shall continue to have the conversion rights provided in Section 6, which rights shall continue in effect until the Redemption Date.

(f) Shares of Series A Preferred Stock which have been redeemed, purchased or otherwise acquired by the Corporation shall be canceled and shall not be subject to re-issuance by the Corporation for any purpose.

9. GENERAL.

(a) The Corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series A Preferred Stock so as to affect adversely the Series A Preferred Stock, without the written consent or affirmative vote of the holders of a majority of the then outstanding shares of Series A Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, in accordance with applicable law. For this purpose, without limiting the generality of the foregoing, the authorization of any shares of capital stock with preference or priority over the Series A Preferred Stock as to the right to receive either dividends or amounts distributable upon liquidation, dissolution or winding up of the Corporation shall be deemed to affect adversely the Series A Preferred Stock, and the authorization of any shares of capital stock on a parity with Series A Preferred Stock as to the right to receive either dividends or amounts distributable upon liquidation, dissolution or winding up of the Corporation shall not be deemed to affect adversely the Series A Preferred Stock.

(b) The number of authorized shares of Series A Preferred Stock may be increased (but only for the purpose of providing a sufficient number of authorized Preferred Shares for the payment of dividends on outstanding Preferred Shares) or decreased (but not below the number of shares then outstanding) by the directors of the Corporation.

(c) Any of the rights of the holders of Series A Preferred Stock set forth herein may be waived by the affirmative vote of the holders of a majority of the shares of Series A Preferred Stock then outstanding.

(d) Fractional shares of Series A Preferred Stock may be issued as required in connection with the payment of dividends or transfers of Preferred Shares among holders.

10. NOTICES.

(a) Any notices required to be given to any holder of Series A Preferred Stock shall be deemed properly given if deposited in the United States mail, postage prepaid, or sent by facsimile or by overnight or express delivery service, followed by duplicate notice via United States first class mail, postage prepaid, and addressed to the holder of record at such holder's address appearing at the books of the Corporation.

(b) In case:

i. of any capital reorganization of the Corporation, any reclassification of the capital stock of the Corporation, any consolidation or merger of the Corporation with or into another corporation, or any conveyance of all or substantially all of the assets of the Corporation to another corporation; or

ii. of any voluntary or involuntary dissolution, liquidation or winding up of the Corporation; or

iii. any other event specified in this Certificate requiring the taking of such a record,

Then, and in each such case, the Corporation shall mail or cause to be mailed to each holder a notice specifying, as the case may be, the date on which a record is to be taken for the foregoing purposes and providing the information reasonably required in order enable the holders of record of Preferred Shares to exercise the rights conferred by this Certificate of Designation.

THIRD: The reclassification of authorized but unissued shares as set forth in this Certificate of Designation does not increase the authorized capital of the Corporation or the aggregate par value thereof.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation for its Series A 8% Convertible Preferred Stock to be duly executed by its President and by its Secretary, respectively, this 11th day of September, 2000.

BIOQUEST, INC.

By: /s/ WARREN C. LAU

Warren C. Lau
President

By: /s/ ROBERT D. WHITWORTH

Robert D. Whitworth
Secretary

[Corporate Seal]

EXHIBIT A

BIOQUEST, INC. CORPORATION

NOTICE OF CONVERSION OF

SERIES A 8% CONVERTIBLE PREFERRED STOCK

(To be Executed by the Registered Holder in order to Convert the Series A Preferred Stock)

The undersigned Holder hereby irrevocably elects to convert ____ shares of Series A Preferred Stock, represented by stock certificate No(s). _____ (the "Preferred Stock Certificates") into shares of common stock ("Common Stock") of BioQuest, Inc. according to the conditions set forth in the Certificate of Designation for Series A Preferred Stock, as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any. A copy of each of the Preferred Stock Certificates being converted is attached hereto.

Date of Submission: _____

Number of Shares of Series A 8% Convertible
Preferred Stock to be Converted: _____

Name of Holder: _____

By: _____
(Signature)

Title: _____

Address: _____

Social Security or

Federal Taxpayer ID No:_____

IMPORTANT

No shares of Common Stock will be issued until the original Series A Preferred Stock Certificate(s) to be converted and the Notice of Conversion are received by the Corporation. The Holder shall fax, or otherwise deliver, a copy of this completed and fully executed Notice of Conversion to the Corporation at the office of the Corporation or such other location designated by the Corporation and shall deliver, at the same time, the original Series A Preferred Stock Certificate(s) representing the Series A Preferred Stock being converted, duly endorsed for transfer.

Exhibit 10.1

PATENT AND TECHNOLOGY LICENSE AGREEMENT

THIS thirteen (13) page AGREEMENT ("AGREEMENT") is made on this day of June 14, 1996 by and between the BOARD OF REGENTS ("BOARD") of THE UNIVERSITY OF TEXAS SYSTEM ("SYSTEM"), an agency of the State of Texas, whose address is 201 West 7th Street, Austin, Texas 78701, THE UNIVERSITY OF TEXAS M. D. ANDERSON CANCER CENTER ("MDA"), a component Institution of the SYSTEM and BioQuest, Inc., a Houston, Texas corporation having a principal place of business located at 333 N. Sam Houston Pkwy, Suite 1150, Houston, Texas 77060 ("LICENSEE").

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RECITALS

A. BOARD owns certain PATENT RIGHTS and TECHNOLOGY RIGHTS related to LICENSED SUBJECT MATTER, which were developed at MDA, a component institution of SYSTEM.

B. BOARD desires to have the LICENSED SUBJECT MATTER developed in the LICENSED FIELD and used for the benefit of LICENSEE, the inventor, BOARD, and the public as outlined in the Intellectual Property Policy promulgated by the BOARD.

C. LICENSEE wishes to obtain a license from BOARD to practice LICENSED SUBJECT MATTER.

NOW, THEREFORE, in consideration of the mutual covenants and premises herein contained, the parties hereto agree as follows:

I. EFFECTIVE DATE

1.1 Subject to approval by BOARD, this AGREEMENT shall be effective as of the date written herein above ("EFFECTIVE DATE").

II. DEFINITIONS

As used in this AGREEMENT, the following terms shall have the meanings

indicated:

2.1 AFFILIATE shall mean any business entity more than 50% owned by LICENSEE, any business entity which owns more than 50% of LICENSEE, or any business entity that is more than 50% owned by a business entity that owns more than 50% of LICENSEE.

2.2 LICENSED FIELD shall mean all fields of use within the LICENSED SUBJECT MATTER.

2.3 LICENSED PRODUCTS shall mean any product or service SOLD by LICENSEE comprising LICENSED SUBJECT MATTER pursuant to this AGREEMENT.

2.4 LICENSED SUBJECT MATTER shall mean inventions and discoveries defined herein as PATENT RIGHTS or as TECHNOLOGY RIGHTS.

2.5 LICENSED TERRITORY shall mean all national and international political jurisdiction in which LICENSED PRODUCTS are sold.

2.6 NET SALES shall mean the gross revenues received by LICENSEE from the SALE of LICENSED PRODUCTS less sales and/or use taxes actually paid, import and/or export duties actually paid, outbound transportation prepaid or allowed, and amounts allowed or credited due to returns (not to exceed the original billing or invoice amount).

2.7 PATENT RIGHTS shall only mean any and all of BOARD'S rights in information or discoveries claimed in invention disclosures, patents, and/or patent applications, whether domestic or foreign, and all divisionals, continuations, continuations-in-part, reissues, reexaminations or extensions thereof, and any letters patent that issue thereon as defined in Exhibit I hereto subject to the limitations, if any, set forth therein.

2.8 SALE or SOLD shall mean the transfer or disposition of a LICENSED PRODUCT for value to a party other than LICENSEE or an AFFILIATE.

2.9 Subject to the limitations, if any, set forth in Exhibit I hereto, TECHNOLOGY RIGHTS shall mean BOARD'S rights in any technical information, know-how, process, procedure, composition, device, method, formula, protocol, technique, software, design, drawing or data created by the inventors listed in Exhibit I hereto and relating to LICENSED SUBJECT MATTER which is not claimed in PATENT RIGHTS but which is necessary for practicing PATENT RIGHTS regardless of whether any patent is actually issued during the term of this AGREEMENT.

III. LICENSE

3.1 BOARD hereby grants to LICENSEE a royalty-bearing, exclusive license under LICENSED SUBJECT MATTER to manufacture, have manufactured, use and/or sell LICENSED PRODUCTS within LICENSED TERRITORY for use within LICENSED FIELD and, subject to Paragraph 4.5 herein, shall extend to BOARD's undivided interest in any LICENSED SUBJECT MATTER developed during the term of this AGREEMENT and jointly owned by BOARD and LICENSEE. This grant shall be subject to Paragraph 14.2 and 14.3, hereinbelow, the payment by LICENSEE to BOARD of all consideration as provided in Paragraph 4.1 of this AGREEMENT, (as well as the timely payment of all amounts due under any Sponsored Research Agreement between MDA and LICENSEE in effect during the term of this AGREEMENT) and shall be further subject to rights retained by BOARD and MDA to:

(a) Publish the general scientific findings from research related to LICENSED SUBJECT MATTER; AND

(b) Subject to the provisions of ARTICLE XI herein below, use any information contained in LICENSED SUBJECT MATTER for research, teaching, patient care, and other educationally-related purposes.

3.2 LICENSEE shall have the right to extend the license granted herein to any AFFILIATE provided that such AFFILIATE consents to be bound by all of the terms and conditions of this AGREEMENT.

3.3 Subject to the Paragraph 3.4 herein below, LICENSEE shall have the right to grant sublicenses under LICENSED SUBJECT MATTER consistent with the terms of this AGREEMENT provided that LICENSEE shall be responsible for its sublicensees relevant to this AGREEMENT, and for diligently collecting all amounts due LICENSEE from subicensees. In the event a sublicensee pursuant hereto becomes

bankrupt, insolvent or is placed in the hands of a receiver or trustee, LICENSEE, to the extent allowed under applicable law and in a timely manner, agrees to use its best reasonable efforts to collect any and all consideration owed to LICENSEE and to have the sublicense agreement confirmed or rejected by a court of proper jurisdiction.

3.4 LICENSEE agrees to deliver to BOARD a true and correct copy of each sublicense granted by LICENSEE, and any modification or termination thereof, within thirty (30) days after execution, modification, or termination.

3.5 Upon termination of this AGREEMENT, BOARD agrees to accept as successors to LICENSEE, existing sublicensees in good standing at the date of termination provided that such sublicensees consent to be bound by all of the terms and conditions of this AGREEMENT.

IV. CONSIDERATION, PAYMENTS AND REPORTS

4.1 In consideration of rights granted by BOARD to LICENSEE under this AGREEMENT, LICENSEE agrees to pay MDA the following:

(a) Reimbursement for all out-of-pocket expenses paid by MDA through May 31, 1996 in filing, prosecuting, enforcing and maintaining PATENT RIGHTS licensed hereunder as follows: (i) due September 1, 1996, (ii) due April 1, 1997, and (iii) due January 1, 1998; and all future expenses paid by MDA, for so long as, and in such countries as, this AGREEMENT remains in effect. MDA will invoice LICENSEE in accordance with the schedule herein, and upon a quarterly basis thereafter beginning March 1, 1998 for expenses paid by MDA after May 31, 1996 and the amounts invoiced will be due and payable by LICENSEE within thirty (30) days thereafter; AND

(b) A running royalty equal to of LICENSEE's NET SALES of LICENSED PRODUCTS in national political jurisdictions in the LICENSED TERRITORY where LICENSED SUBJECT MATTER is covered by one (1) or more issued patents or pending patent applications and of LICENSEE'S NET SALES of LICENSED PRODUCTS in national political jurisdictions in the LICENSED TERRITORY where LICENSED SUBJECT MATTER is NOT covered by one (1) or more issued patents or pending patent applications, and (or when LICENSEE has expended or committed to expend and is current in its obligations to expend on research and development of the LICENSED SUBJECT MATTER) of all consideration other than Research and Development ("R&D") money received by LICENSEE from (i) any sublicensee pursuant to Paragraphs 3.3 and 3.4 herein above, and (ii) any assignee pursuant to Paragraph 12.1 hereinbelow including but not limited to royalties, up-front payments, marketing, distribution, franchise, option, license, or documentation fees, bonus and milestone payments and equity securities, all payable within thirty (30) days after March 31, June 30, September 30, and December 31 of each year during the term of this AGREEMENT, at which time LICENSEE shall also deliver to BOARD and MDA a true and accurate report, giving such particulars of the business conducted by LICENSEE and its sublicensees, if any exist, during the preceding three (3) calendar months under this AGREEMENT as necessary for BOARD are to account for LICENSEE's payments hereunder. Such report shall include all pertinent data, including, but not limited to: (a) the total quantities of LICENSED PRODUCTS produced; (b) the total SALES, (c) the calculation of royalties thereon; (d) the total royalties (or minimum royalties) so computed and due MDA; and (e) all other amounts covered and due herein. Simultaneously with the delivery of each such report, LICENSEE shall pay to MDA the amount, if any, due for the period of such report. If no payments are due, it shall be so reported. Should LICENSEE be obligated to pay running royalties to third parties to avoid infringing such third parties' patent rights which dominate BOARD'S PATENT RIGHTS, LICENSEE may reduce the running royalty due MDA by such running royalties to such third parties, provided, however, the running royalty due MDA shall in no case be less than one-half the rates stated herein.

4.2 During the Term of this AGREEMENT and for one (1) year thereafter, LICENSEE shall keep complete and accurate records of its and its sublicensees' SALES and NET SALES of LICENSED PRODUCTS to enable the royalties payable hereunder to be determined. LICENSEE shall permit MDA or its representatives, at MDA's expense, to periodically examine its books, ledgers, and records during regular business hours for the purpose of and to the extent necessary to verify any report required under this AGREEMENT. In the event that the amounts due to MDA are determined to have been underpaid in an amount equal to or greater than five percent (5%) of the total amount due during the period of time so examined, LICENSEE shall pay the cost of such examination, and accrued interest at the highest allowable rate.

4.3 Upon the request of BOARD or MDA but not more often than once per calendar year, LICENSEE shall deliver to BOARD and MDA a written report as to LICENSEE'S (and sublicensees') efforts and accomplishments during the preceding year in diligently commercializing LICENSED SUBJECT MATTER in the LICENSED TERRITORY and LICENSEE'S (and sublicensees') commercialization plans for the upcoming year.

4.4 All amounts payable hereunder by LICENSEE shall be payable in United States funds without deductions for taxes, assessments, fees, or charges of any kind. Checks shall be made payable to The University of Texas M. D. Anderson Cancer Center and mailed by U.S. Mail to Box 297402, Houston, Texas 77297 Attention: Manager, Sponsored Programs.

4.5 No payments due or royalty rates under this AGREEMENT shall be reduced as the result of co-ownership of LICENSED SUBJECT MATTER by BOARD and another party, including LICENSEE.

V. SPONSORED RESEARCH

5.1 If LICENSEE desires to fund sponsored research within the LICENSED SUBJECT MATTER, and particularly where LICENSEE receives money for sponsored research payments pursuant to a sublicense under this AGREEMENT, LICENSEE shall notify MDA in writing of all opportunities to conduct such sponsored research (including clinical trials, if applicable), shall solicit research and/or clinical proposals from MDA for such purpose, and shall give good faith consideration to funding such proposals at MDA.

VI. PATENTS AND INVENTIONS

6.1 If after consultation with LICENSEE it is agreed by BOARD and LICENSEE that a new patent application should be filed for LICENSED SUBJECT MATTER, BOARD will prepare and file appropriate patent applications, and LICENSEE will pay the cost of searching, preparing, filing, prosecuting and maintaining same. If LICENSEE notifies BOARD that it does not intend to pay the cost of an application, or if LICENSEE does not respond or make an effort to agree with BOARD on the disposition of rights of the subject invention, then BOARD may file such application at its own expense and LICENSEE shall have no rights to such invention. BOARD shall provide LICENSEE with a copy of the application for which LICENSEE has paid the cost of filing, as well as copies of any documents received or filed during prosecution thereof.

VII. INFRINGEMENT BY THIRD PARTIES

7.1 LICENSEE shall have the obligation of enforcing at its expense any patent exclusively licensed hereunder against infringement by third parties and shall be entitled to retain recovery from such enforcement. LICENSEE shall pay MDA a royalty on any monetary recovery to the extent that such monetary recovery by LICENSEE is held to be damages or a reasonable royalty in lieu thereof. In the event that LICENSEE does not file suit against a substantial infringer of such patents within six (6) months of knowledge thereof, then BOARD shall have the right to enforce any patent licensed hereunder on behalf of itself and LICENSEE (MDA retaining all recoveries from such enforcement) and/or reduce the license granted hereunder to non-exclusive.

7.2 In any suit or dispute involving an infringer, the parties shall cooperate fully, and upon the request and at the expense of the party bringing suit, the other party shall make available to the party bringing suit at reasonable times and under appropriate conditions all relevant personnel, records, papers, information, samples, specimens, and the like which are in its possession.

VIII. PATENT MARKING

8.1 LICENSEE agrees that all packaging containing individual LICENSED PRODUCT(S), and documentation therefor, sold by LICENSEE, SUBSIDIARIES, and sublicensees of LICENSEE will be marked permanently and legibly with the number of the applicable patent(s) licensed hereunder in accordance with each country's patent laws, including Title 35, United States Code.

IX. INDEMNIFICATION

9.1 LICENSEE shall hold harmless and indemnify BOARD, SYSTEM, MDA, its Regents, officers, employees, students, and agents from and against any claims, demand, or causes of action whatsoever, costs of suit and reasonable attorney's fees including without limitation those costs arising on account of any injury or death of persons or damage to property caused by, or arising out of, or resulting from, the exercise or practice of the license granted hereunder by

LICENSEE or its officers, employees, agents or representatives.

X. USE OF BOARD AND COMPONENT'S NAME

10.1 LICENSEE shall not use the name of (or the name of any employee of) MDA, SYSTEM or BOARD without the advance, express written consent of BOARD secured through:

The University of Texas
M. D. Anderson Cancer Center
Office of Public Affairs
1515 Holcombe Boulevard
Box 229
Houston, Texas 77030
ATTENTION: Stephen C. Stuyck

XI. CONFIDENTIAL INFORMATION

11.1 BOARD and LICENSEE each agree that all information contained in documents marked "confidential" which are forwarded to one by the other shall be received in strict confidence, used only for the purposes of this AGREEMENT, and not disclosed by the recipient party (except as required by law or court order), its agents or employees without the prior written consent of the other party, unless such information (a) was in the public domain at the time of disclosure, (b) later became part of the public domain through no act or omission of the recipient party, its employees, agents, successors or assigns, (c) was lawfully disclosed to the recipient party by a third party having the right to disclose it, (d) was already known by the recipient party at the time of disclosure, (e) was independently developed or (f) is required to be submitted to a government agency pursuant to any preexisting obligation.

11.2 Each party's obligation of confidence hereunder shall be fulfilled by using at least the same degree of care with the other party's confidential information as it uses to protect its own confidential information. This obligation shall exist while this AGREEMENT is in force and for a period of three (3) years thereafter.

XII. ASSIGNMENT

12.1 Except in connection with the sale of substantially all of the assets of LICENSEE to a third party, this AGREEMENT may not be assigned by LICENSEE without the prior written consent of BOARD.

XII. TERMS AND TERMINATION

13.1 Subject to Articles 13.2, 13.3, 13.4, and 13.5 hereinbelow, the term of this AGREEMENT shall extend from the Effective Date set forth hereinabove to the full end of the term or terms for which PATENT RIGHTS have not expired, and if only TECHNOLOGY RIGHTS are licensed and no PATENT RIGHTS are applicable, for a term of fifteen (15) years.

13.2 BOARD shall have the right at any time after one (1) year from the EFFECTIVE DATE of this AGREEMENT to terminate the license granted herein in any national political jurisdiction within the LICENSED TERRITORY if LICENSEE, within ninety days after written notice from BOARD of such intended termination, fails to provide written evidence satisfactory to BOARD that LICENSEE has commercialized or is actively and effectively attempting to commercialize an invention licensed hereunder within such jurisdiction(s). Accurate, written evidence provided by LICENSEE to BOARD within said ninety (90) day period that LICENSEE has an effective, ongoing and active research, development, manufacturing, marketing, or sales program, as appropriate, directed toward obtaining regulatory approval and/or production and/or sale of LICENSED PRODUCTS incorporating PATENT RIGHTS or incorporating TECHNOLOGY RIGHTS within such jurisdiction shall be deemed satisfactory evidence.

13.3 Subject to any rights herein which survive termination, this AGREEMENT will earlier terminate in its entirety:

(a) automatically if LICENSEE shall become bankrupt or insolvent and/or if the business of LICENSEE shall be placed in the hands of a receiver or trustee, whether by voluntary act of LICENSEE or otherwise; or

(b) (i) upon thirty (30) days written notice by BOARD if LICENSEE shall breach or default on the payment obligations of ARTICLE IV, or use of name obligations of ARTICLE X; or (ii) upon ninety (90) days written notice by BOARD if LICENSEE shall breach or default on any other obligation under this AGREEMENT; provided, however, LICENSEE may avoid such termination if before the end of such thirty (30) or ninety (90) day period if LICENSEE provides notice and accurate, written evidence satisfactory to BOARD that such breach has been cured and the manner of such cure; or.

(c) at any time by mutual written agreement between LICENSEE and BOARD, or without cause upon one hundred eighty (180) days written notice by LICENSEE to BOARD, subject to any terms herein which survive termination.

13.4 Upon termination of this AGREEMENT for any cause:

(a) nothing herein shall be construed to release either party of any obligation matured prior to the effective date of such termination.

(b) LICENSEE covenants and agrees to be bound by the provisions of ARTICLES IX, X AND XI of this AGREEMENT.

(c) LICENSEE may, after the effective date of such termination, sell all LICENSED PRODUCTS and parts therefore that it may have on hand at the date of termination, provided that LICENSEE pays the earned royalty thereon and any other amounts due pursuant to ARTICLE IV of this AGREEMENT.

(d) LICENSEE grants to BOARD a non-exclusive royalty bearing license with the right to sublicense others with respect to improvements made by LICENSEE (including improvements licensed by LICENSEE from third parties) in the LICENSED SUBJECT MATTER. LICENSEE and BOARD agree to negotiate in good faith the royalty rate for said non-exclusive license. BOARD's right to sublicense others hereunder shall be solely for purposes of permitting others to develop and commercialize the entire technology package.

13.5 This AGREEMENT shall automatically terminate if LICENSEE fails to deliver to MDA by September 1, 1996 (i) payment of pursuant to 4.1(a) hereinabove and (ii) notice that LICENSEE has legally binding funding commitments from its investors totaling or more.

XIV. WARRANTY: SUPERIOR-RIGHTS

14.1 Except for the rights, if any, of the Government of the United States as set forth hereinbelow, BOARD represents and warrants its belief that it is the owner of the entire right, title, and interest in and to LICENSED SUBJECT MATTER, and that it has the sole right to grant licenses thereunder, and that it has not knowingly granted licenses thereunder to any other entity that would restrict rights granted hereunder except as stated herein.

14.2 LICENSEE understands that the LICENSED SUBJECT MATTER may have been developed under a funding agreement with the Government of the United States of America and, if so, that the Government may have certain rights relative thereto. This AGREEMENT is explicitly made subject to the Government's rights under any such agreement and any applicable law or regulation, including P.L. 96-517 as amended by P.L. 98-620. To the extent that there is a conflict between any such agreement, applicable law or regulation and this AGREEMENT, the terms of such Government agreement, applicable law or regulation shall prevail.

14.3 LICENSEE understands and agrees that BOARD, by this AGREEMENT, makes no representation as to the operability or fitness for any use, safety, efficacy, approvability by regulatory authorities, time and cost of development, patentability, and/or breadth of the LICENSED SUBJECT MATTER. BOARD, by this AGREEMENT, makes no representation as to whether there are any patents now held, or which will be held, by others or by BOARD in the LICENSED FIELD, nor does BOARD make any representation that the inventions contained in PATENT RIGHTS do not infringe any other patents now held or that will be held by others or by BOARD.

14.4 LICENSEE, by execution hereof, acknowledges, covenants and agrees that LICENSEE has not been induced in anyway by BOARD, SYSTEM, MDA or employees thereof to enter into this Agreement, and further agrees that LICENSEE has conducted sufficient due diligence with respect to all items and issues pertaining to Article XIV herein and all other matters pertaining to this Agreement and agrees to accept all risks inherent herein.

XV. GENERAL

15.1 This AGREEMENT constitutes the entire and only AGREEMENT between the parties for LICENSED SUBJECT MATTER and all other prior negotiations, representations, agreements and understandings are superseded hereby. No agreements altering or supplementing the terms hereof may be made except by means of a written document signed by the duly authorized representatives of the parties.

15.2 Any notice required by this AGREEMENT shall be given by prepaid, first class, certified mail, return receipt requested, and addressed in the case of BOARD to:

BOARD OF REGENTS
The University of Texas System
201 West Seventh Street
Austin, Texas 78701
ATTENTION: System Intellectual Property Office

with copy to:

The University of Texas
M.D. Anderson Cancer Center
Office of Technology Development
1020 Holcombe Boulevard, Suite 1405
Houston, Texas 77030
ATTENTION: William J. Doty

or in the case of LICENSEE to:

BioQuest, Inc.
333 N. Sam Houston Pkwy, Suite 1150
Houston, Texas 77060
ATTENTION: Warren C. Lau

or such other address as may be given from time to time under the terms of this notice provision.

15.3 LICENSEE covenants and agrees to comply with all applicable federal, state and local laws and regulations in connection with its activities pursuant to this AGREEMENT.

15.4 This AGREEMENT shall be construed and enforced in accordance with the laws of the United States of America and of the State of Texas.

15.5 Failure of BOARD to enforce a right under this AGREEMENT shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved.

15.6 Headings included herein are for convenience only and shall not be used to construe this AGREEMENT.

15.7 If any provision of this AGREEMENT shall be found by a court to be void, invalid or unenforceable, the same shall be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this AGREEMENT.

IN WITNESS WHEREOF, parties hereto have caused their duly authorized representatives to execute this AGREEMENT.

THE UNIVERSITY OF TEXAS
M.D. ANDERSON CANCER CENTER

By /s/ DAVID J. BACHRACH
David J. Bachrach
Executive Vice President
for Administration and Finance

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

By /s/ RAY FARABEE
Ray Farabee
Vice Chancellor and
General Counsel

APPROVED AS TO CONTENT:

By /s/ WILLIAM J. DOTY
William J. Doty
Director, Technology Development

APPROVED AS TO FORM:

By /s/ DUDLEY R. DOBIE. JR
Dudley R. Dobie, Jr.
Manager, Intellectual Property

BIOTEX,INC.

By /s/ WARREN C. LAU

Warren C. Lau
President

EXHIBIT I

Ralph Arlinghaus, Ph.D., et al, Principal Investigator

- (MDA REF: UTSC:060-1) (CIP of UTSC:060) entitled "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome"
- U.S. Patent No. 5,128,319 entitled "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome", (MDA REF: UTSC:234)
- MDA REF: UTSC:242 entitled "Methods and Compositions for the Priming of Specific Cytotoxic T-Lymphocyte Response"
- MDA REF: UTSC:267 (Divisional of UTSC:234) "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome"
- MDA REF: UTSC:305 entitled "Compositions and Methods for Eliciting Immune or Anti-Infective Responses"
- MDA REF: UTSC:331 entitled "CD4 Peptides for Binding to Viral Envelope Proteins"
- MDA REF: UTSC:381 entitled "Peptides for Inhibitiing the Infection of Target Cells by Lentiviruses"

Exhibit 10.2

AMENDMENT NO. 1 TO

PATENT AND TECHNOLOGY LICENSE AGREEMENT

This AMENDMENT NO. 1 dated and effective as of the 15th day of June, 2000, to the Patent and Technology License Agreement dated June 14, 1996 (hereinafter referred to as the "AGREEMENT") is between THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER (hereinafter referred to as "MDA"), located at 1515 Holcombe Boulevard, Houston, Texas, and which is a component institution of THE UNIVERSITY OF TEXAS SYSTEM (hereinafter referred to as "SYSTEM") which is governed by a BOARD OF REGENTS (hereinafter referred to as "BOARD") and BioQuest, Inc., which subsequently merged to become BIOKEYS PHARMACEUTICALS, INC., a Delaware corporation, located at 333 N. Sam Houston Parkway, Suite 1035, Houston, Texas 77060 (hereinafter referred to as "LICENSEE").

RECITALS

A. On or about _____, BIOQUEST, INC. merged to become BIOKEYS PHARMACEUTICALS, INC., wherein LICENSEE agreed to accept all terms and conditions of the 1996 Agreement.

B. MDA, BOARD and LICENSEE wish to amend the terms of the AGREEMENT as set forth below to modify the consideration for the license granted under the AGREEMENT to provide for the payment by LICENSEE of a portion of such modified consideration by issuing and delivering shares of Common Stock of LICENSEE to MDA as prepaid royalties, and to incorporate additional LICENSED SUBJECT MATTER.

NOW, THEREFORE, it is hereby agreed as follows:

The AGREEMENT is hereby amended as follows:

1. EXHIBIT 1 of the AGREEMENT is hereby replaced in its entirety with the following:

EXHIBIT I Ralph Arlinghaus, Ph.D., et al, Principal Investigator

1) MDA Ref: UTSC:060-1 (CIP of UTSC:060) entitled "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome"

2) U.S. Patent No. 5,128,319 entitled "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome", (MDA Ref: UTSC:234)

3) MDA Ref: UTSC:242 entitled "Methods and Compositions for the Priming of Specific Cytotoxic T-Lymphocyte Response"

4) MDA Ref: UTSC:267 (Divisional of UTSC:234) "Prophylaxis and Therapy of Acquired Immunodeficiency Syndrome"

5) MDA Ref: UTSC:305 entitled "Compositions and Methods for Eliciting Immune or Anti-Infective Responses"

6) MDA Ref: UTSC:331 entitled "CD4 Peptides for Binding to Viral Envelope Proteins"

7) MDA Ref: UTSC:381 entitled "Peptides for Inhibiting the Infection of Target Cells by Lentiviruses"

8) MDA Ref: UTSC:538 entitled "Compositions and Methods for Eliciting Immune or Anti-Infective Responses"

9) MDA Ref: UTSC:561PZ1 entitled "HIV-Specific T-Cell Induction"

10) MDA Ref: UTSC:561PZ2 entitled "HIV-Specific T-Cell Induction"

2. New Section 5.2 below is added to the existing Article 5:

5.2 The parties agree that all amounts and balances due to MDA or the BOARD under existing sponsored research agreements (i) SR96-006 Studies on Therapeutic Potential of HIV Synthetic Peptides, (ii) SR96-006/A1 Studies on Therapeutic Potential of HIV Synthetic Peptides: Clinical and Preclinical Studies and (iii) SR96-006/A2 Studies on Therapeutic Potential of HIV Synthetic Peptides: Development of Peptidometic Form of R15K ((i), (ii) and (iii) collectively referred to as the "Existing Sponsored Research Agreements"), shall be considered paid in full and upon the execution by all parties of this AMENDMENT NO. 1 LICENSEE

shall owe nothing to MDA or BOARD under the Existing Sponsored Research Agreements. The parties agree that all amounts paid under AMENDMENT NO. 1, paragraph 3 relating to Section 4.1(e) for new sponsored research agreements, further relating to AMENDMENT No. 4 to Research Agreement(SR96-006/A4), are not part of the amounts and balances due under the Existing Sponsored Research Agreements. The parties also agree to terminate the Existing Sponsored Research Agreements and enter into new sponsored research agreements in compliance with this AMENDMENT NO. 1.

3. Article 4.1 is hereby replaced in its entirety with the following:

In consideration of rights granted by BOARD to LICENSEE under this AGREEMENT, LICENSEE agrees to pay MDA the following:

(a) Payment of $ for reimbursement of all out-of-pocket expenses paid by MDA through June 15, 2000 in filing, prosecuting, enforcing and maintaining PATENT RIGHTS licensed hereunder (the "Balance Payment"), to be paid by LICENSEE within six (6) weeks of the date the Office of the General Counsel of MDA approves this AMENDMENT NO. 1. LICENSEE agrees to pay all future expenses paid by MDA, for so

long as, and in such countries as this Agreement remains in effect. The Balance Payment may be made to MDA either in the form of a cash payment or in lieu of such cash payment, LICENSEE will give BOARD a total of duly authorized, validly issued and fully paid shares of Common Stock of LICENSEE, the amount of such shares of Common Stock being calculated by dividing the Balance Payment by the average stock-split adjusted closing price of the LICENSEE's Common Stock during the 10-day period, beginning May 28, 2000 and ending June 7, 2000. Such shares of Common Stock shall be issued by LICENSEE in the name of BOARD within six (6) weeks of the date The University of Texas System Office of the General Counsel approves this AMENDMENT NO. 1. In connection with its receipt of such shares, BOARD is making the representations, and shall have the registration and other rights (subject to the conditions), set forth in Exhibit 2 hereto; and

(b) A running royalty equal to one and of LICENSEE's NET SALES of LICENSED PRODUCTS in national political jurisdictions in the LICENSED TERRITORY where LICENSED SUBJECT MATTER is covered by one (1) or more issued patents or pending patent applications; of LICENSEE'S NET SALES of LICENSED PRODUCTS in national political jurisdictions in the LICENSED TERRITORY where LICENSED SUBJECT MATTER is not covered by one (1) or more issued patents or pending patent applications; and of all consideration other than payments covering direct, out-of-pocket Research and Development (R&D) expenses received by LICENSEE from (i) any sublicensee pursuant to Paragraphs 3.3 and 3.4 of the PATENT AND TECHNOLOGY LICENSE AGREEMENT, and (ii) any assignee pursuant to Paragraph 12.1 of the PATENT AND TECHNOLOGY LICENSE AGREEMENT, including but not limited to royal-ties, up-front payments, marketing, distribution, franchise, option, license, or documentation fees, bonus and milestone payments and equity securities, all payable within thirty (30) days after March 31, June 30, September 30, and December 31 of each year during the term of this AGREEMENT, at which time LICENSEE shall also deliver to MDA a true and accurate report, giving such particulars of the business conducted by LICENSEE and its sublicensees, if any, during the preceding three (3) calendar months under this AGREEMENT as necessary for MDA to account for LICENSEE's payments hereunder. Such report shall include all pertinent data, including, but not limited to: (a) the total quantities of LICENSED PRODUCTS produced; (b) the total SALES, (c) the calculation of royalties thereon; (d) the total

royalties (or minimum royalties) so

computed and due MDA; and (e) all other amounts covered and due herein and (f) copies of all executed agreements between LICENSEE and third parties pursuant to Paragraphs 3.3, 3.4 and 12.1 of the PATENT AND TECHNOLOGY LICENSE AGREEMENT. Simultaneously with the delivery of each such report, LICENSEE shall pay to MDA the amount, if any, due for the period of such report. If no payments are due, it shall be so reported. Should LICENSEE be obligated to pay running royalties to third parties to avoid infringing such third parties' patent rights which dominate BOARD's PATENT RIGHTS, LICENSEE may reduce the running royalty due MDA by such running royalties to such third parties, provided, however, the running royalty due MDA shall in no case be less than one-half the rates stated herein. For the avoidance of any doubt, the parties hereto acknowledge and agree that any running royalties due MDA under this Paragraph 4.1(b) shall in no event be reduced by any of the consideration due MDA under Paragraph 4.1(a), (c), (d) and (e).

(c) As a prepaid royalty, duly authorized, validly issued and fully paid shares of Common Stock in LICENSEE, which, the parties agree, had a value of , calculated by dividing by the average stock-split adjusted closing price of the LICENSEE's Common Stock for the ten (10) day period of May 28, 2000 through June 7, 2000. Such shares of Common Stock shall be issued in the name of BOARD within five days following execution of this AMENDMENT NO. 1, and, in connection with its receipt of such shares, MDA is making the representations, and shall have the limitations as well as registration and other rights (subject to the conditions), set forth in Exhibit 2 hereto.

(d) As a prepaid royalty, the number of duly authorized, validly issued and fully paid shares of Common Stock in LICENSEE equal to a value of , calculated by dividing by the average closing price of the LICENSEE's Common Stock during the ten (10)day period immediately prior to the LICENSEE enrolling the first patient in the first Phase I Trial of any product which utilizes LICENSED SUBJECT MATTER; provided, however, that, the minimum price of the shares so calculated shall be no lower than per share and that no more shares will be issued under this paragraph, as adjusted for stock splits. Such shares of Common Stock shall be issued in the name of BOARD within fifteen days following such enrollment of the first patient, and, in connection with its receipt of such shares, MDA is making the representations, and shall have the registration and other rights (subject to the conditions), set forth in Exhibit 2 hereto.

(e) LICENSEE shall enter into one or more sponsored research agreement(s) with MDA (which agreement shall be satisfactory in form and substance to the parties), in which LICENSEE agrees to provide MDA researchers with at least one million dollars in sponsored research funding by December 31, 2001. The monies owed MDA under Amendment No. 4 to Research Agreement (SR96-006/A4) signed September 7, 2000 shall count towards this one million dollars owed MDA under this section.

4. New Section 6.2 below is added to the existing Article 6:

6.2 Any new invention, development, or discovery made in the laboratories of a MDA researchers receiving sponsored research monies from LICENSEE

and resulting from the LICENSED SUBJECT MATTER (the "New Technology") shall be promptly disclosed in writing to the LICENSEE under a confidentiality agreement (which agreement shall be satisfactory in form and substance to the parties), provided that the LICENSEE has a sponsored research agreement(s) in effect with MDA at that time under which MDA is due to receive payments from LICENSEE aggregating at least Two Hundred Thousand ($200,000) Dollars per year. LICENSEE is hereby granted, without an option fee other than consideration of research sponsored by LICENSEE and the reimbursement of the BOARD for all patent expenses incurred to the date of disclosure related to the New Technology, an option to acquire an exclusive, worldwide, royalty bearing license of BOARD' rights to such New Technology, which option shall continue for a period of one hundred and twenty (120) days after LICENSEE' receipt of a reasonable written disclosure concerning the New Technology; If LICENSEE notifies BOARD in writing of its intent to exercise its option within the option period, then the parties will proceed in good faith to negotiate a license agreement on commercially reasonable terms within one hundred and twenty (120) days of BOARD's notification to LICENSEE of New Technology. If LICENSEE does not exercise this option, or notifies BOARD that it will not exercise this option, or the parties fail to sign a license agreement within said one hundred and twenty (120) day period, then LICENSEE shall no longer have an option or any other rights in the New Technology.

5. Article 13.3 is hereby replaced in its entirety with the following:

13.3 Subject to any rights herein, which survive termination, this AGREEMENT will earlier terminate in its entirety:

(a) automatically if LICENSEE shall become bankrupt or insolvent and/or if the business of LICENSEE shall be placed in the hands of a receiver or trustee, whether by voluntary act of LICENSEE or otherwise; or

(b) (i) upon thirty (30) days written notice by MDA if LICENSEE shall breach or default on the payment obligations of ARTICLE

IV, or use of name obligations of ARTICLE X, ; (ii) or upon ninety (90) days written notice by MDA if LICENSEE shall breach or default on any other obligation under this AGREEMENT; provided, however, LICENSEE may avoid such termination if before the end of such thirty (30) or ninety (90) day period, LICENSEE provides notice and accurate, written evidence satisfactory to MDA that such breach has been cured and the manner of such cure; or

(c) at any time by mutual written agreement between LICENSEE and MDA, or without cause upon one hundred eighty (180) days written notice by LICENSEE to MDA, subject to any terms herein which survive termination.

6. New Section 13.6 below is added to the existing Article 13:

13.6 Termination of the AGREEMENT will not obligate MDA, the SYSTEM or the BOARD to return the shares of Common Stock issued pursuant to Article 4, nor will it affect the status of such shares as duly authorized, validly issued, fully paid and non-assessable shares of Common Stock.

OTHERWISE, the terms and provisions of the AGREEMENT shall remain in full force and effect, provided, however, that in the event of a conflict in the terms and conditions between this AMENDMENT NO. 1 and the AGREEMENT, AMENDMENT NO. 1 shall prevail. THIS AMENDMENT NO. 1 and AGREEMENT constitute the entire agreement between the parties in connection with the subject matter hereof and thereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this AMENDMENT NO. 1.

THE UNIVERSITY OF TEXAS	BOARD OF REGENTS OF THE
M.D. ANDERSON CANCER CENTER	UNIVERSITY OF TEXAS SYSTEM

By: /s/ LEON LEACH
Leon Leach
Executive Vice President

Date:

By: /s/ JOHN MENDELSOHN, M.D.
John Mendelsohn, M.D.
President, MDA

Date:

APPROVED AS TO CONTENT

By: /s/ WILLIAM J. DOTY
William J. Doty

APPROVED AS TO FORM

By: /s/ BETHLYNN MAXWELL, ESQ.
BethLynn Maxwell, Esq.

Director, Technology Development

Date:

Office of General Counsel

Date:

BIOKEYS PHARMACEUTICALS, INC.

By: /s/ WARREN LAU
Warren Lau
President

Date:

EXHIBIT 2

The following additional provisions shall apply to the securities being issued to MDA under this Agreement:

(a) MDA, SYSTEM AND BOARD (collectively or singly, LICENSOR) acknowledge that the securities (together with any securities issued in respect thereof upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, the "Registrable Securities") being issued under this AGREEMENT, are being acquired from LICENSEE in a transaction not involving a public offering, that they are not being registered for public sale prior to such issuance and that, under such laws and applicable regulations, such securities may not be transferred or resold without registration under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an exemption therefrom. For purposes of this Agreement, "HOLDER" shall mean any LICENSOR who holds any of the Registrable Securities and any holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred pursuant hereto. In this connection, LICENSOR represents that it is familiar with Rule 144 under the Securities act as presently in effect, and understands the resale limitations imposed by the Securities Act and Rule 144.

(b) LICENSOR is acquiring such securities solely for investment purposes and not with a view to a distribution of all or any part thereof. LICENSOR has the financial ability to bear the economic risk of its investment for an indefinite period, and has adequate means of providing for its current needs and anticipated contingencies without reference to the liquidity of the securities, which may be issued to it. LICENSOR is a not-for-profit organization with more than $5,000,000 in total assets. LICENSOR has such knowledge and experience in financial and business matters that it is fully capable of

evaluating the merits and risks of an investment in LICENSEE.

(c) If the LICENSEE proposes to make an underwritten public offering of securities solely for cash (except in the case of a first public offering of securities by LICENSEE) the LICENSEE shall, no later than 10 days prior to the filing of a registration statement, send notice of such proposed filing, accompanied by a draft copy of the preliminary prospectus included in such registration statement, to each

Holder. Upon the written request of a Holder to be included in such registration statement as a selling stockholder, given within 20 days after receipt of such notice, the LICENSEE shall include in such registration statement all or any portion of the securities of such Holder, as such Holder shall so request. However, if the managing underwriter of such public offering shall express objection to the inclusion of all or part of such securities of Holder in such public offering because of prevailing market conditions or other factors, the amount of such securities of such Holder to be so registered in such offering shall be reduced to the level which such managing underwriter deems appropriate in relation to the size of the underwritten offering and the ability of the market to accommodate the sale of such securities of such Holder, provided, however, that if any securities are being included in such offering on behalf of any selling stockholders other than such Holder, any reduction of offered securities imposed on such Holder shall be proportional to any reduction imposed on such other selling stockholders. Notwithstanding any provision hereof to the contrary, LICENSEE shall not be required to include any securities of Holder in a registration statement covering a first public offering of securities by LICENSEE.

(d) Each Holder hereby agrees that such Holder will not, without the prior written consent of the LICENSEE, during the period commencing on the date hereof and ending March 15, 2002 (i) lend, 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, directly or indirectly, any Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing provisions of this paragraph (d) shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement.

(e) If Holder does not sell all of the Common Stock owned by it under paragraph (c) above, such Holder shall have additional rights to include such securities in any underwritten public offering of securities to be undertaken by the LICENSEE, and the terms and conditions of

paragraph (c) above and this paragraph (e) shall be applicable to any registration request of such Holder in connection with any such subsequent public offering. The rights of Holder under this paragraph (e) shall cease when it no longer owns at least 1% of the outstanding Common Stock.

(f) Whenever required under this Exhibit 2 to effect the registration of any securities, the LICENSEE shall, as expeditiously as reasonably possible:

(i) Prepare and file with the SEC a registration statement with respect to such securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holder, keep such registration statement effective for at least nine (9) months.

(ii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Holder such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of securities owned by them.

(iv) Use its best efforts to register and qualify the securities covered by such registration statement under the securities laws of such jurisdictions as shall be reasonably requested by the Holder for the distribution of the securities covered by the registration statement, provided that the LICENSEE shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such jurisdiction.

(v) In the event of an underwritten public offering, enter into and perform its obligations under an underwriting agreement with terms generally

satisfactory to the LICENSEE and the managing underwriter of such offering.

(vi) Notify the Holders promptly after the LICENSEE shall have received notice thereof, of the time when the registration statement becomes effective or any supplement to any prospectus forming a part of the registration statement has been filed.

(vii) Notify the Holders of any stop order suspending the effectiveness of the registration statement and use its reasonable best efforts to remove such stop order.

(viii) Notify the Holders if the registration statement is no longer effective or the registration statement or the prospectus or any prospectus supplement is required to be amended in order to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(g) It shall be a condition precedent to the obligations of the LICENSEE to take any action pursuant to this Exhibit 2 that the Holder shall furnish to the LICENSEE such information in writing regarding itself, the securities held by it, and the intended

method of disposition of such securities, as the LICENSEE shall reasonably request and as shall be required to effect the registration of such securities. In that connection, the Holder shall be required to represent to the LICENSEE that all such information, which is given, is both complete and accurate in all material respects. Holder shall also deliver to the LICENSEE a statement in writing that it has a bona fide intention to sell, transfer or otherwise dispose of such securities.

(h) "Registration Expenses" shall mean all expenses incurred by the LICENSEE in complying with this Exhibit 2, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the LICENSEE, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration. Registration Expenses shall also include fees and disbursements of one special counsel for Holders and other selling stockholders, in an amount not to exceed $10,000. "Selling Expenses" shall mean all underwriting

discounts, selling commissions and underwriters' expense allowances applicable to the sale of the securities of Holders. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Exhibit 2 shall be borne by the LICENSEE, and all Selling Expenses shall be borne by the Holders.

(i) If the Holders propose to distribute their securities through an underwriter, the LICENSEE shall enter into an underwriting agreement in customary form with the underwriter or underwriters, provided that the terms thereof shall not be materially less favorable to the LICENSEE than those customarily arranged in comparable underwritten offerings.

(j) Holders shall have no right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Exhibit 2.

(k) Nothing contained herein shall be deemed to limit the rights of the Holders to offer or make a public sale of all or any portion of such securities under Rule 144 of the SEC or any other applicable provisions of federal and state securities laws. Furthermore, if, in the opinion of counsel for a Holder, the offering or transfer by such Holder in the manner proposed (including, without limitation, the number of shares proposed to be offered or transferred and the method of offering or transfer) is exempt from the registration requirements of the Securities Act under Rule 144 or otherwise, LICENSEE shall not be required to effect any registration of such securities under the Securities Act.

(l) At such time as LICENSEE is eligible to register its Common Stock for public sale under the Securities Act using Form S-3 (or similar successor form), Holders shall have a one-time right to demand that the LICENSEE file a registration statement on Form S-3 covering the offering and sale by Holders of all or a portion of the shares owned by them, such sales to be either at the market from time to time or in an underwritten public offering, or both. LICENSEE will as promptly as practicable after the receipt of such demand file such registration statement and take such other actions with respect to such registration statement as are required by the provisions of paragraphs (f) through (i) of this Exhibit 2. The rights of the Holders under this paragraph (k) shall cease when they no longer

own collectively at least 1% of the outstanding Common Stock of LICENSEE.

(m) The rights to cause LICENSOR to register a Holder's securities granted by LICENSOR under this Exhibit 2 may be transferred or assigned by a Holder to a transferee or assignee of any Registrable Securities.

Exhibit 10.3

OPTION AND LICENSE AGREEMENT

1. INTRODUCTION

THIS AGREEMENT is between the UNVERSITY OF SOUTHERN CALIFORNIA, (hereinafter USC) a California nonprofit corporation with its principal place of business at University Par, Los Angeles, California 90089, and Biokeys, Inc., a Delaware corporation, with its principal place of business at 16 South Market Street, Petersburg, Virginia 23803 (hereinafter Licensee).

WHEREAS USC warrants that it is the owner and that it has the right to exclusively license those inventions which are the subject matter of the patents and patent applications listed in Appendix A and of which the inventors are Colin Spears and Sang-Ihn Kang (File 2199A) and Colin Spears and Bengt Gustavsson (Files 2266B & 2266C) (Hereinafter Inventors);

WHEREAS Licensee desires to obtain an exclusive license in the defined FIELD OF USE to manufacture and market products utilizing the inventions as hereinafter defined:

WHEREAS, USC is willing to grant a worldwide, exclusive license in the defined FIELD OF USE to Licensee subject to the terms, conditions, limitations, and restrictions set forth below:

NOW, THEREFORE, in consideration of the covenants herein contained, the parties agree as follows:

2. DEFINITIONS

For the purposes of this Agreement the following terms have meanings specified below:

a. The term "PATENT" or "PATENTS" shall mean any and all patents listed in Appendix A, and all patent applications listed in Appendix A including any and all patents issued thereon or any continuation, division, extensions or reissue thereof.

b. "PRODUCT" or "PRODUCTS" shall mean any article, composition, apparatus, substance, chemical, material, method or service which is made, used, distributed or sold by Licensee which:

i. is covered in whole or in part by one or more pending or unexpired claims contained in a PATENT in the country in which the PRODUCT(S) is made, used, distributed or sold;

ii. is manufactured using a method or process which is covered in whole or in part by one or more pending or un-expired claims contained in a PATENT in the country in which (a) the PRODUCT(S) is made, used, distributed or sold, or (b) the method or process is used or sold; or

iii. the use of which is covered in whole or in part by one or more pending or un-expired claims contained in a PATENT in the country in which (a) the PRODUCT(S) is made, used, distributed or sold, or (b) the method or process is used or sold.

A PRODUCT is covered by a pending or un-expired claim of a PATENT if in the course of manufacture, use distribution or sale, it would in the absence of this Agreement, infringe one or more claims of the PATENT which has not been held invalid by a court from which no appeal can be taken.

c. "FIELD OF USE" shall mean all fields.

d. "NET SALES PRICE" shall mean:

i. the gross billing price of any PRODUCT received by Licensee or SUBLICENSEE for the sale or distribution of any PRODUCT, less the following amounts actually paid by Licensee or SUBLICENSEE:

(1) discounts allowed;

(2) returns;

(3) transportation charges or allowances;

(4) packing and transportation packing material costs (not including product containers or product packing containers as manufactured by the Company);

(5) customs and duties charges: and

(6) sales, transfer and other excise taxes or other governmental charges levied on or measured by the sales but no franchise or income tax of any kind whatsoever.

ii. Every commercial use or disposition of any PRODUCT, in addition to a bona fide sale to a customer, shall be considered a sale of such PRODUCT. The NET SALES PRICE, in the case or a use or disposition other than a bona fide sale, shall be equivalent the then payable NET SALES PRICE of such PRODUCT in an arm's length transaction. Excluded from the calculation of NET SALES PRICE shall be any PRODUCT that is: (1) used by Licensee or provided to SUBLICENSEE free of charge for testing and/or conducting clinical trials; (2) that is donated by Licensee or a SUBLICENSEE to a charitable

organization; (3) sales between Licensee and any subsidiary, or between Licensee or any subsidiary and a SUBLICENSEE, provided they are for development, testing or re-sale purposes (the latter of which licensee will pay USC a royalty for such re-sale) and not for intended end use;

e. "SUBLICENSEE" shall mean any third party licensed by Licensee to make, or sell any PRODUCT in accordance with the terms of this Agreement.

f. "EFFECTIVE DATE" of this Agreement shall be the date when the last party has signed this agreement.

3. OPTION PHASE

a. USC hereby grants Licensee the exclusive rights to conduct various technical, pre-clinical, marketing, patent, and other studies on PRODUCTS in the FIELD OF USE during a six (6) month period commencing on the EFFECTIVE DATE of this Agreement.. The option period may be extended by mutual written agreement of the parties.

4. LICENSE PHASE

a. In consideration of the license fees and royalties, and subject to the terms and conditions, as set forth in this Agreement and effective upon written notification to USC during the option phase that Licensee desires to license the PATENT(S), USC hereby grants to Licensee:

i. the exclusive worldwide license in the FIELD OF USE to use the PATENT to manufacture and sell the PRODUCT(S); and

ii. the right to grant sublicenses to any PATENT licensed exclusively hereunder, provided that any SUBLICENSEE agrees to be bound by the terms and conditions of this Agreement applicable to SUBLICENSEES.

b. If USC is not notified of Licensee's desire to enter the license phase by the end of the option phase or any extensions thereto, this Agreement and the license granted herein shall immediately terminate.

c. All licenses pursuant to 4.a. and 4.b. to inventions conceived or first actually reduced to practice during the course of research funded by a U.S. Federal Agency are subject to the rights, conditions and limitations imposed by U.S. Law. USC agrees to use reasonable efforts to comply with the requirements of such laws and applicable regulations. The words "exclusive license" as used herein shall mean exclusive except for the royalty free non-exclusive license granted to the U.S. government by USC pursuant to 35 USC Section 202(c)(4) for any PATENT claiming an invention subject to 35 USC Section 201 and except for the rights of USC and Inventors as set forth in Paragraphs 6.

d. In addition to the royalty referred to in Paragraph 5 the Licensee shall pay USC a license fee of payable within thirty (30) days of the first private placement of equity in Biokeys (exclusive of the original capital invested by the founders Licensee) and an additional license fee of due and payable within thirty (30) days of the first public offering of equity in Biokeys.

5. ROYALTY

a. On all sales of Products anywhere in the world by Licensee or SUBLICENSEE, Licensee shall pay USC a royalty of of the NET SALES PRICE.

b. Licensee shall pay to USC a prepaid royalty of due and payable within thirty (30) days of market approval of a NEW DRUG APPLICATION (NDA) by the FDA for any product covered by the claims of any PATENT. The prepaid royalty shall be deductible from running royalties based on sales made after the date that the prepaid royalty is due.

c. The obligation to pay a royalty under this Agreement on the NET SALES PRICE of a PRODUCT shall be imposed only once with respect to the same unit of the PRODUCT regardless of the number of valid issued or, assuming they were to issue, pending claims included within the PATENTS.

d. In the event Licensee is required to pay third party royalty(ies) on patents not owned by USC in order to manufacture, use or sell a PRODUCT, then the royalty rate on the NET SALES PRICE of such PRODUCT shall be reduced by the following formula:

New Royalty Rate = minus either (i) one
and or (ii) of the
royalty rate owed to the third party, whichever is less.

e. Licensee shall pay such royalties to USC on a calendar quarter basis. With each quarterly payment, Licensee shall deliver to USC a full and accurate accounting to include at least the following information:

i. Quantity of each PRODUCT sold (by country) by Licensee and its SUBLICENSEES;

ii. Total receipts for each PRODUCT (by country);

iii. Quantities of each PRODUCT used by Licensee and its SUBLICENSEES;

iv. Names and addresses of SUBLICENSEES of Licensee;

v. Total number of PRODUCTS manufactured (by country); and

vi. Total royalties payable to USC.

f. In each year the amount of royalty due shall be calculated quarterly as of March 31, June 30, September 30 and December 31 and shall be paid quarterly within the thirty next (30) days following such date. Every such payment shall be supported by the accounting prescribed in Paragraph 5.e. and shall be made in United States currency. Whenever for the purpose of calculating royalties conversion from foreign currency shall be required, such conversion shall be at the rate of exchange thereafter published in the Wall Street Journal for the business day closest to the applicable end of calendar quarter.

g. The royalty payments due under this Agreement shall, if overdue, bear interest until payment at a per annum rate equal to in effect at 5:00pm (Eastern Time) on the due date, not to exceed the maximum permitted by law. The payments of such interest shall not preclude USC from exercising any other rights it may have as a consequence of the lateness of the payment.

6. RIGHTS RETAINED BY UNIVERSITY

Notwithstanding the exclusive license granted in Paragraph 4a, USC and Inventors will have the absolute, nontransferable right to use the technology covered by the PATENTS and all improvements thereof, for conducting research and educational purposes.

7. PATENT PROSECUTION

a. USC shall prosecute and maintain the PATENTS during the course of this Agreement.

b. Licensee shall reimburse all reasonable legal expenses incurred and paid by USC in filing, prosecuting and maintaining the U.S. and foreign PATENTS, including the expenses associated with parent patent applications listed in Appendix A whether such expenses were incurred before or after the date of this Agreement. These legal expenses shall include the attorneys' and agents' fees,

filing fees and out-of-pocket costs associated with responding to office actions and any other fees and costs directly related to obtaining and/or maintaining patent protection. Licensee shall advance payments of maintenance fees and annuities as part of such legal expenses to be reimbursed by Licensee within thirty (30) days of request by USC, unless Licensee is advised otherwise by timely notice from USC.

c. The first reimbursement payment made by Licensee shall be for the reimbursement of USC's patent expenses to date and shall be made upon the earlier of (i) thirty (30) days following the first public offering of equity in Biokeys or (ii) one year from the date that the option granted herein is exercised by Licensee. Thereafter, reimbursement payments shall be made by Licensee within thirty (30) days of receipt of an invoice from USC citing any additional expenses.

d. If the Licensee elects (i) not to pursue a PATENT or (ii) to terminate the prosecution or maintenance of a PATENT, the Licensee surrenders its right to make, use or sell PRODUCTS covered by the non-elected PATENT and shall grant to USC the exclusive rights previously granted to Licensee, without limitation. Licensee agrees to execute all necessary documents to carry out this grant of rights to USC. Payments referred to in Paragraphs 7.b. and 7.c. shall not be refunded upon such non-election or termination.

8. PATENT INFRINGEMENT

a. Defensive Controversy.

Licensee shall promptly notify USC of all claims, allegations and notifications of infringement of third party patents. Except for the placing in escrow of a portion of royalties as referred to hereinafter, USC shall have no obligation or liability in the event that legal action is brought against Licensee for patent infringement. Such obligation and liability shall be borne by Licensee. Licensee may choose legal counsel and defend the patent infringement lawsuit. During such lawsuit, Licensee may place all of the royalties derived from the sale of the PRODUCT in the country where such lawsuit, Licensee may place all of the royalties derived from sales of the PRODUCT in the country where such lawsuit is pending in an interest-bearing escrow account. The escrow account shall be established in a bank mutually acceptable to both parties under escrow instructions insulating the funds from claims of any creditor. Upon termination of the action, one half (1/2) of any judgement amount, reasonable attorneys' fees and costs, or $100,000, whichever amount is greater, may be paid from this escrow account to be applied against such judgement, fees and costs. If the application of the escrow funds is not sufficient to pay for one half (1/2) of such judgement, fees, and costs, then up to (1/2) of all royalties payable to USC may be applied against any such deficit. In addition, should the settlement of any such patent infringement lawsuit involve payment of royalties by Licensee to a third party for the continued right to manufacture, use and sell the PRODUCT, then funds in the escrow account and royalties payable to USC may be applied against up to one half (1/2) of such royalties to a third party. Any funds thereafter remaining in the escrow shall be paid to USC. The above shall constitute USC's sole liability and responsibility in the event of such action. During the patent infringement litigation both parties shall keep each other informed in writing of significant developments in the lawsuit.

b. Offensive Controversy.

Licensee shall promptly notify USC of any potential infringement of a PATENT. In the event that a third party infringes on a PATENT, Licensee shall have the right but not an obligation to bring legal action to enforce any such patent. If Licensee exercises such right, Licensee shall select legal counsel and pay all legal fees and costs of prosecution of such action. In the event that Licensee shall choose not to take such action, USC shall have the right, at its option and at its own expense, to prosecute any action to enjoin such infringement or to prosecute any claim for damages. The party prosecuting any such action shall be entitled to retain any funds received as a result of settlement or judgement of such action. The parties may also agree to jointly pursue infringers. After deduction and payment to the parties of their respective costs and fees (including without limitation reasonable attorneys' fees) incurred in

prosecuting any such actions, the net funds obtained as a result of settlement or of judgement of any such jointly prosecuted action shall be divided in the

following manner: 25% of all net funds shall be divided equally by the parties and 75% of all the net funds shall be divided between the parties in the proportion to the amount of legal fees and costs incurred by the parties in the prosecution of such actions. If funds are insufficient to pay all costs and fees then all of the funds shall be paid to the parties in said proportion.

c. During any litigation hereunder both parties shall keep each other timely informed of any significant development in the litigation and provide all reasonably requested technical assistance. During any said controversy, full royalty payment shall continue, except as otherwise provided herein.

9. RECORDS

Licensee shall keep and shall require its SUBLICENSEES to keep complete, true and accurate books of account and records for the purpose of showing the derivation of all amounts payable to USC under this Option and License Agreement. Said books and records shall be kept at Licensee's principal place of business for at least four (4) years following the end of the calendar year to which they pertain, and shall be open at all reasonable times for inspection by a representative of USC for the purpose of verifying Licensee's royalties statement or Licensee's compliance in other respects with this Option and License Agreement. All information obtained as a result of such audit shall be maintained in confidence, except that the representative may disclose to USC the aggregate amount of royalties due to USC during each year, as determined in such audit. Should an audit by USC show an underpayment of royalties by more than 10%, Licensee shall immediately pay such underpayment and all interest, as well as for USC's reasonable audit expenses.

10. SERVICES OF INVENTORS

USC shall make reasonable efforts to make Inventors available during regular business hours to answer questions concerning certain technical aspects of the technology. Should Licensee desire to use the services of Inventors for further testing and/or market studies of the technology, a separate research and development and/or consulting agreement should be negotiated with Inventors and the USC Office of Contracts and Grants.

11. SUBLICENSE PERMISSION

Licensee may sublicense the PATENT(S) only with prior written permission from USC, which permission will not be unreasonably withheld. Notwithstanding the foregoing, no

permission will be granted for a sublicense unless the SUBLICENSEE agrees in writing to be bound by the terms of this Agreement.

12. PATENT MARKETING

Licensee shall use reasonable efforts to place all appropriate patent and other intellectual property notices, markings and indicia on product and marketing literature for the PRODUCTS as needed to protect the patent and other intellectual property rights of USC and right for damages for infringement thereof.

13. PUBLICATIONS

Nothing in this Agreement shall limit or prevent USC or Inventors from publishing any information about the PATENT. Thirty (30) days prior to submission for publication, USC and Inventors will use their reasonable efforts to submit the proposed publication, for review only, to Licensee.

14. PUBLICITY

Neither party shall use the name, trade name, trademark or other designation of the other party in connection with any products, promotion or advertising without the prior written permission of the other party.

15. ASSIGNMENTS/TRANSFERS

Licensee may not assign or transfer this Agreement in whole or part to any third party without the prior written permission of USC, which permission shall be granted in the sole discretion of USC. However, the Licensee may assign the entire Agreement to successors of the entire business of the PRODUCTS if the successor agrees to be bound by this Agreement and prior written notice is provided to USC.

16. TERMINATION

a. Upon the breach or default under this Option and License Agreement by either party, the non-breaching party may terminate this Option and License Agreement by forty-five (45) days written notice to the breaching party. Notwithstanding, USC may terminate this Option and License Agreement upon twenty (20) days written notice to Licensee if the Licensee fails to obtain and maintain the insurance coverages required by Paragraph 24 hereof. Said notice shall be effective at the end of such period unless during said period breaching party shall remedy such defect or default. Licensee may also terminate this Agreement at any time, for any reason, by providing USC a thirty (30) days written notice. No option fees, license fees, or royalties shall be returnable. This Agreement may also be terminated immediately by USC upon

notice to Licensee upon the occurrence of any of the following: (i) Licensee attempts to use, sublicense, transfer or assign its rights or obligations under this Agreement in any manner contrary to the terms of this Agreement or in derogation of USC's proprietary rights; or ii) Licensee is determined to be insolvent or makes an assignment for the benefit of creditors, or has a bankruptcy petition filed by or against it, or a receiver or trustee in bankruptcy or similar officer is appointed to take charge of all or part of Licensees property. Upon termination of the Agreement all rights granted to or provided by each party to the other shall automatically and irrevocably revert to the granting party.

b. Surviving any termination are:

i. Licensee's obligation to pay royalties accrue or accruable.

ii. Licensee's obligation of Paragraph 9 to keep and allow a final audit.

iii. Any cause of action or claim of Licensee or USC, accrue or to accrue, because of any breach or default by the other party.

iv. The provisions of paragraphs 22, 23 and 24.

c. Upon termination of this Agreement, Licensee agrees to immediately discontinue the manufacture and sale of the PRODUCTS and the use of the PATENTS. Within twenty (20) days after such termination, Licensee shall provide USC with a written inventory of all PRODUCTS currently in its stock as of the date of termination (the "INVENTORY"). USC shall have the option to grant to Licensee the privilege of disposing of such INVENTORY at its normal prices within three (3) months after said termination. Licensee shall dispose of this INVENTORY only to customers who had previously purchased PRODUCTS from Licensee during the term of this Agreement, and in no event shall Licensee sell such INVENTORY to wholesalers, diverters, jobbers or any other entity which does not sell at retail exclusively or to any one else who intends to sell such INVENTORY at close-out. The disposition of all such INVENTORY, however, shall be subject to all of the terms and conditions of this Agreement. After the three (3) month sell-off period, Licensee shall destroy or return to USC all remaining unsold PRODUCTS, all packaging and marketing materials, and shall certify their destruction or return to USC specifying the number of each destroyed or returned. All royalty obligations, shall be accelerated and shall become immediately due and payable. In addition, Licensee shall immediately deliver to USC (i.) all materials relating to the PATENTS, together with all copies thereof, and (ii) all market studies or other tests or studies conducted by Licensee with respect to the PRODUCTS, all at no cost whatsoever to USC. This Paragraph 16.c. shall not apply if the termination of this Agreement arises from the expiration of the term of this Agreement under Paragraph 21.

d. Licensee acknowledges and agrees that any violation of Agreement by Licensee would result in irreparable harm to USC. Accordingly, Licensee consents and agrees that, if Licensee violates any of the provisions of this Agreement, USC shall be entitled, in addition to other remedies available to it, to an injunction to be issued by any court of competent jurisdiction restraining Licensee from committing or continuing any violation of this Agreement, without the need for posting any bond or any other undertaking.

17. NOTICES, REPORTS AND PAYMENTS

Any notice, report or payment permitted or required under this Agreement shall be in writing, and shall be sent or delivered to the receiving party at the address set forth below or at such address as either party may from time to time designate in writing.

USC: Office of Patent and Copyright Administration
University of Southern California
3716 South Hope Street, Suite 313
Los Angeles, CA 90007-4344 (U.S.A.)

Attn: Director

LICENSEE: Biokeys Incorporated
709 Hamptons Lane
Chesterfield, MO 63017

Attn: Francis E. O'Donnell Jr., Chief Executive Officer

18. PARAGRAPH HEADINGS

Paragraph headings are for the convenience of this Agreement only and shall not add to or detract from any of the terms or provisions.

19. SEVERABILITY

If any provision of this Agreement is held invalid under any law applicable to the parties, SUBLICENSEES and/or assignees, that provision shall be considered severable and its invalidity shall not affect the remainder of this Agreement, which shall continue in full force and effect.

20. CONTROLLING LAW, JURISDICTION AND VENUE

This Agreement shall be deemed to be executed and to be performed in the State of California, and shall be construed in accordance with the laws of the State of California as to all matters, including but not limited to matters of validity, construction, effect and performance. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this agreement, such controversy, claim or dispute may be tried exclusively in the courts of the State of California or in the United States Federal District Court for the Central District of California, as either party may elect. Each of the parties hereby waives any defense of lack of in personam jurisdiction, improper venue and forum non conveniens, and agrees that service of process of such court may be made upon each of them by personal delivery or by mailing certified or registered mail, return receipt requested, to the other party at the address provided for in Paragraph 16 hereof. Both parties hereby submit to the jurisdiction of the court so selected, to the exclusion of any other courts which may have had jurisdiction apart from this Paragraph 20.

21. TERMS OF AGREEMENT

Except as otherwise terminated pursuant to the other provisions of this OPTION AND LICENSE AGREEMENT, this Agreement shall terminate upon expiration of the last to expire of the PATENTS.

22. NEGATION OF WARRANTIES

a. Nothing in this Agreement shall be construed as:

i. a warranty or representation by USC as to the validity or scope of the PATENT and/or PATENT Application; or

ii. a warranty or representation that any PRODUCTS made, used, sold or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents of third parties; or

iii. an obligation to bring or prosecute actions or suits against third parties for infringement; or

iv. conferring the rights to use in advertising, publicity or otherwise any trademark, trade name, or names or any contraction, abbreviation, simulation or adoption thereof, of USC or Licensee; or

v. any obligation to furnish any know-how not provided.

b. USC MAKES NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR

FITNESS FOR A PARTICULAR PURPOSE, nor does USC represent that the rights granted hereunder will result in PRODUCTS that are commercially successful.

c. Licensee further agrees that it will not rely upon technical information provided by USC and Inventors in developing and manufacturing any PRODUCTS hereunder, but will independently test, analyze and evaluate all PRODUCTS prior to manufacture and distribution of such PRODUCTS.

23. INDEMNITY

a. Licensee shall defend, indemnify and hold harmless USC and its trustees, officers, medical and professional staff, employees and agents and their respective successors, heirs and assigns (the "Indemnitees"), against all liabilities, demands, losses, costs, and expenses (including without limitation attorneys' fees) incurred by or imposed upon the Indemnitees or any one of them in connection with any claims, suits, actions, demands or judgements arising out of any theory of liability (including but not limited to, actions in the form of tort, warrantee, or strict liability) for death, personal injury, illness, or property damage arising from Licensee's use, sale, or other disposition of the PRODUCTS.

b. Licensee agrees, at its own expense, to provide attorneys reasonably acceptable to USC to defend against any actions brought or filed against any party indemnified hereunder with respect to the subject of indemnity contained herein, whether or not such actions are rightfully brought.

24. INSURANCE

a. Prior to Licensee exercising the option granted herein, Licensee shall at its sole cost and expense, procure and maintain in effect a comprehensive general liability policy of insurance in single limit coverage of not less than per incident and annual aggregate for death, bodily injury or illness and annual aggregate in property damage. Such comprehensive general liability insurance shall provide (i) product liability coverage and (ii) broad form contractual liability coverage for Licensee's indemnification. If Licensee elects to self-insure all or part of the limits described above (including deductibles or retention which are in excess of annual aggregate) such self-insurance program must be acceptable to USC. Each such policy of insurance shall name USC as an additional insured and shall provide for not less than thirty (30) days prior written notice before any cancellation or material change in coverage shall be effective. A Certificate evidencing the comprehensive general liability policy herein defined shall be delivered to USC within ten (10) days of the EFFECTIVE DATE of this Agreement. Licensee shall maintain such comprehensive general liability insurance until such time as the policy in Paragraph 25.b. is procured, or until fifteen (15) years after the term of this Agreement.

b. During such time and in each country where PRODUCT, or any modification thereof, is administered to humans, manufactured or distributed for any purpose (including for the purpose of obtaining regulatory approvals) Licensee or any SUBLICENSEE, Licensee shall at its sole cost and expense, procure and maintain in effect a comprehensive general liability policy of

insurance in single limit coverage of not less than per incident and annual aggregate for death, bodily injury, illness or property damage. Such comprehensive general liability insurance shall provide (i) product liability coverage and (ii) broad form contractual liability coverage for Licensee's indemnification. If Licensee elects to self-insure all or part of the limits described above (including deductibles or retention which are in excess of annual aggregate) such self-insurance program must be acceptable to USC. Each such policy of insurance shall name USC as an additional insured and shall provide for not less than thirty (30) days prior written notice before any cancellation or material change in coverage shall be effective. A Certificate evidencing the comprehensive general liability policy herein defined shall be delivered to USC prior to any manufacture, sale, distribution or administration to humans. Licensee shall maintain such comprehensive general liability insurance during the period that the PRODUCT or any modification thereof is being manufactured, sold, distributed or administered to humans by the Licensee or its SUBLICENSEES and a reasonable period thereafter which in no event shall be less than fifteen (15) years.

c. Alternatively, Licensee and USC may obtain an independent opinion from legal counsel mutually agreeable to the parties in each country in which

Licensee intends to manufacture and/or distribute PRODUCTS, such opinion to assist in determining the amount of general and products liability insurance required to be carried by Licensee in such country. Where independent legal counsel determines that little or no liability risk to USC exists under the present and reasonably anticipated future legal trends in that country, Licensee will be required to maintain liability insurance on USC's behalf which is determined by USC to be reasonably adequate to pay litigation defense costs. Where independent legal counsel determines that the risk of liability on the part of USC is more than minimal in that country, USC and Licensee will evaluate such risk and negotiate in good faith to determine the amounts of liability insurance necessary to reasonably insure USC's interests. If USC and Licensee cannot agree on the amounts and types of insurance reasonably necessary to protect USC's interest in a particular country, Licensee will not manufacture or market PRODUCTS in that country.

d. In the event that Licensee does not maintain such insurance, but is self-insured, or carries a substantial self-retention, USC may grant permission for such self-insurance only if, in the sole discretion of USC, the net worth, assets and earnings of the Licensee are deemed sufficient to protect USC's economic interests in the event of claims, liability, demands, damages, expenses and losses from death, personal injury, illness, or property damage.

e. The minimum amounts of insurance coverage required under this Paragraph (subparts 24.a., 24.b., and 24.c.) shall not be construed to create a limit of Licensee's liability with respect to its indemnification in Paragraph 23 or any other provision of this Agreement.

f. By SUBLICENSEES

As a condition precedent to a grant of permission by USC for Licensee to sublicense the PATENT rights herein, the prospective SUBLICENSEE shall agree to indemnify Licensee and USC to the same extent and degree as Licensee has agreed to indemnify USC herein. Such

SUBLICENSEE shall also provide insurance identical in coverage and amount to that required of Licensee in subparagraph b, above, naming both Licensee and USC as additional insured. A Certificate evidencing the product liability coverage shall be delivered prior to first manufacture of any PRODUCTS by the SUBLICENSEE. In the event a prospective SUBLICENSEE does not maintain such insurance, but rather is self-insured, or carries a substantial self-retention, USC may grant permission for such sublicense only if, in the sole discretion of USC, the net worth, assets and earnings of such prospective SUBLICENSEE are deemed sufficient to protect USC's economic interests in the event of claims, liability, demands, damages, expenses and losses from death, personal injury, illness, or property damage.

26. PRODUCT DEVELOPMENT

If Licensee exercises its option, Licensee shall use its reasonable efforts to test, develop the PRODUCT for commercial purposes through the world. On or before January 1 of each year during the term of this Agreement, commencing January 1, 1998, Licensee shall submit to USC a report detailing its research, regulatory approval, marketing and product development objectives the coming year as well as the research, regulatory approval, marketing and development activities which Licensee undertook during the preceding year. The reports shall identify specific future milestones (regulatory approval and product development) and information demonstrating that the Licensee is providing sufficient financial and manpower resources to evidence its use of reasonable efforts. Within six (6) months after the signing of this Agreement and each two (2) years thereafter, a representative of the Office of Patent and Copyright Administration of USC, at Licensee's expense (including transportation, and, if appropriate, lodging and meals), shall visit the manufacturing and marketing facilities of Licensee and be presented with an in-depth updating of the manufacturing capability and marketing network of Licensee.

27. EXPORT CONTROLS

It is understood that USC is subject to United State laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (such laws include the Arms Export Control Act, as amended and the Export Administration Act), and that its obligations hereunder are contingent on compliance with applicable United States export laws and regulations. The transfer of certain technical data and commodities by the Licensee may require a license from the cognizant agency of the United States Government and/or written assurances by Licensee that Licensee shall not export data or commodities to certain foreign countries without prior

approval of such agency. USC neither represents that a license shall not be required nor that, if required, it shall be issued. Licensee shall not engage in any activity in connection with this Agreement that is in violation of any applicable U.S. law.

28. INDEPENDENT CONTRACTOR

In rendering performances under this Agreement, Licensee will function solely as an independent contractor and not as an agent, partner, employee or joint venturer with USC. Nothing in this Agreement shall be deemed or construed to create the relationship of principal and agent, or of partnership or joint venture, and neither party shall hold itself out as an agent, legal representative, partner, subsidiary, joint venturer, servant or employee of the other. Neither party nor any officer, employee, agent or representative thereof shall, in any event, have any right collectively or individually, to bind the other party, to make any representations or warranties, to accept service of process, to receive notice or to perform any act or thing on behalf of the other party, except as expressly authorized under this Agreement or in writing by such other party in its sole discretion.

29. WAIVER

No waiver by either party of any default or breach shall be deemed as a waiver of prior or subsequent default or breach of the same or other provisions of this Agreement.

30. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof. No amendment, modification, extension or cancellation of this Agreement shall be binding on the parties unless mutually agreed to and executed in writing by each of the parties.

UNIVERSITY OF SOUTHERN CALIFORNIA	BIOKEYS, INC.
/s/ DENNIS F. DOUGHERTY	/s/ FRANCIS E. O'DONNELL, JR.
Signature	Signature
Dennis F. Dougherty	Francis E. O'Donnell, Jr.
Sr. V.P. Admin	Chairman
1/20/98	1/23/98

EXHIBIT 10.4

FIRST AMENDMENT TO LICENSE AGREEMENT

This First Amendment (the "Amendment") to the License Agreement effective January 23, 1998 (the "License Agreement") between the University of Southern California, ("USC") and Biokeys, Inc., ("Licensee") is made by and between USC and Licensee as follows:

1. Section 7 of the License Agreement is amended to read in its entirety as follows:

7. PATENT PROSECUTION

a. USC shall file, prosecute and maintain, during the course o this Agreement, the patent applications and patents listed in Appendix A. Should Licensee require the filing of foreign patents, USC shall take responsibility for filing, prosecuting and maintaining said foreign patents.

b. Licensee shall reimburse all reasonable legal expenses incurred and paid by USC in filing, prosecuting and maintaining the U.S. and foreign applications listed (or to be listed pursuant to Paragraph 2.a.) in Appendix A, whether such expenses were incurred before or after the date of this Agreement. These legal expenses shall include the attorneys' and agents' fees, foreign filing fees and out-of-pocket costs associated with responding to office actions and any other fees and costs directly related to obtaining and/or maintaining patent protection in the countries listed Appendix A. Licensee shall advance payments of maintenance fees and annuities as part of such legal expenses to be reimbursed by Licensee within thirty (30) days of request by USC, unless Licensee is advised otherwise by timely notice from USC.

c. Licensee agrees to pay to USC an initial deposit of Five Thousand Dollars ($5,000.00) within fifteen (15) days of the EFFECTIVE DATE of this Amendment. Such deposit will be gild in a trust account. Licensee authorized USC to use that account to pay all legal expenses incurred pursuant to Paragraph 7.b. When the trust account drops below Five Thousand Dollars ($5,000.00), Licensee agrees to pay within thirty (30) days of USC's written demand, the amount to maintain the balance of the trust account at a minimum of Five Thousand Dollars ($5,000.00). Upon termination of this Agreement, any unused deposit shall be refunded.

d. If the Licensee elects (i.) Not to pursue a PATENT or (ii) to terminate to prosecution or maintenance of a PATENT in any country, the Licensee surrenders its right to make, use or sell PRODUCTS covered by the non- elected PATENT in that particular country shall grant to USC the exclusive rights previously granted to Licensee, without limitation, for that country. Licensee agrees to execute all necessary documents to carry out this grant of rights to USC. Payments referred to in Paragraphs 7.a and 7.b shall not be refunded upon such non-election or termination.

IN WITNESS WHEREOF, this Amendment is executed as of August 16, 2000.

"USC"

The University of Southern California

By: /s/ Dennis F. Dougherty

Dennis F. Dougherty
Senior Vice President, Administration

"LICENSEE"

BIOKEYS Pharmaceuticals

BY: /s/ Nicholas Jon Virca

Nicholas Jon Virca
President and CEO

Exhibit 10.5

OPTION & LICENSE AGREEMENT

1. INTRODUCTION

THIS AGREEMENT is between the UNIVERSITY OF SOUTHERN CALIFORNIA, (hereinafter USC) a California nonprofit corporation with its principal place of business at University Park, Los Angeles, California 90089, and BioKeys, Inc., a Delaware corporation, with its principal place of business at 11466 Winding Ridge Drive, San Diego, California 92141 (hereinafter Licensee).

WHEREAS USC warrants that it is the owner and that it has the right to exclusively license those rights it has in the inventions which are the subject matter of the patent applications listed in Appendix A and of which the inventor is Charles McKenna of USC (hereinafter Inventor);

WHEREAS Licensee desires to obtain an exclusive license in the defined FIELD OF USE to manufacture and market products utilizing the inventions as hereinafter defined;

WHEREAS, USC is willing to grant a worldwide, exclusive license in the defined FIELD OF USE to Licensee subject to the terms, conditions, limitations, and restrictions set forth below;

NOW, THEREFORE, in consideration of the covenants herein contained, the parties agree as follows:

2. DEFINITIONS

For all purposes of this Agreement the following terms shall have the meanings specified below:

a. The term "PATENT" or "PATENTS" shall mean any and all patent applications listed in Appendix A (Appendix A may be added to from time to time by USC and USC shall notify Licensee of any such additions), any and all patents issued thereon or any continuation, division, extensions or reissue thereof, and any and all foreign patents issuing from any application filed which corresponds to claims contained in any of the foregoing patents or applications.

b. "PRODUCT" or "PRODUCTS" shall mean any article, composition, apparatus, substance, chemical, material, method or service which is made, used, distributed or sold by Licensee which:

i. is covered in whole or in part by one or more pending or unexpired claims contained in a PATENT in the country in which the PRODUCT(S) is made, used, distributed or sold;

ii. is manufactured using a method or process which is covered in whole or in part by one or

more pending or unexpired claims contained in a PATENT in the country in which (a) the PRODUCT(S) is made, used, distributed or sold, or (b) the method or process is used or sold; or

iii. the use of which is covered in whole or in part by one or more pending or unexpired claims contained in a PATENT in the country in which (a) the PRODUCT(S) is made, used, distributed or sold, or (b) the method or process is used or sold;

iv. incorporates technology transferred to Licensee pursuant to the confidential disclosure agreement dated May 22, 2000 between USC and Licensee.

A PRODUCT is covered by a pending or unexpired claim of a PATENT if in the course of manufacture, use, distribution or sale, it would, in the absence of this Agreement, infringe one or more claims of the PATENT which has not been held invalid by a court from which no appeal can be taken.

c. "FIELD OF USE" shall mean use of thiophosphonoformic acid (TPFA) and derivatives thereof for treatment of infection by Human Immunodeficiency Virus (HIV), Human Papillomavirus (HPV) and other viral infections.

d. "NET SALES PRICE" shall mean the gross billing price of any PRODUCT received by Licensee or its SUBLICENSEE for the sale or distribution of any PRODUCT, less the following amounts actually paid by Licensee or SUBLICENSEE:

i. discounts allowed;

ii. returns;

iii. transportation charges or allowances;

iv. packing and transportation packing material costs (not including product containers or product packing containers as manufactured by the Company);

v. customs and duties charges; and

vi. sales, transfer and other excise taxes or other governmental charges levied on or measured by the sales but no franchise or income tax of any kind whatsoever.

Every commercial use or disposition of any PRODUCT, in addition to a bona fide sale to a customer, shall be considered a sale of such PRODUCT. The NET SALES PRICE, in the case of a use or disposition other than a bona fide sale, shall be equivalent to the then payable NET SALES PRICE of such PRODUCT in an arm's length transaction.

e. "SUBLICENSEE" shall mean any third party licensed by Licensee to make, or sell any PRODUCT in accordance with the terms of this Agreement.

f. "EFFECTIVE DATE" of this Agreement shall be the date when the last party has signed this Agreement.

3. OPTION PHASE

a. USC hereby grants Licensee the exclusive right to conduct various technical, pre-clinical, marketing, patent, and other studies on PRODUCTS in the FIELD OF USE during a three (3) month period commencing on the EFFECTIVE DATE of this Agreement. The option period may be extended by mutual written agreement of the parties.

The consideration for the grant of this option phase shall be . Such payment shall be due on the earlier to occur of: (i) within three (3) months of the EFFECTIVE DATE of this Agreement or (ii) thirty (30) days from the date Licensee raises its next round of private funding.

4. LICENSE PHASE

a. In consideration of the license fee and royalties, and subject to the terms and conditions, as set forth in this Agreement and effective upon written notification to USC during the option phase that Licensee desires to license the PATENT(S), USC hereby grants to Licensee:

i. the exclusive worldwide license to use the PATENT to manufacture and sell the PRODUCT(S) for application in the FIELD OF USE; and

ii. the right to grant sublicenses to any PATENT licensed exclusively hereunder, provided that any SUBLICENSEE agrees to be bound by the terms and conditions of this Agreement applicable to SUBLICENSEES.

b. In addition to the consideration referred to in Paragraph 3.b., Licensee and USC shall during the option phase negotiate in good faith the terms of a mutually agreeable research agreement for the purpose of testing and developing the PRODUCT(S) for commercial purposes throughout the world.

c. If USC is not notified of Licensee's desire to enter the license phase by the end of the option phase or any extensions thereto and Licensee and USC are not able to agree to the terms of a research agreement pursuant to Paragraph 4.b., this Agreement and the license granted herein shall immediately terminate. Payments referred to in Section 3 shall not be refunded upon such termination.

d. All licenses pursuant to Paragraphs 4.a. and 4.c. to inventions conceived or first actually reduced to practice during the course of research funded by a U.S. federal agency are subject to the rights, conditions and limitations imposed by U.S. law, including but not limited to the following:

i. The words "exclusive license" as used herein shall mean exclusive except for the

royalty free non-exclusive license granted to the U.S. government by USC pursuant to 35 USC Section 202(c)(4) for any PATENT claiming an invention subject to 35 USC Section 201 and except for the rights of USC and Inventor as set forth in Paragraph 6.

ii. Licensee agrees that PRODUCTS used or sold in the United States shall be manufactured substantially in the United States, unless a written waiver is obtained in advance from the relevant U.S. federal agency.

5. ROYALTY

a. On all sales of PRODUCTS anywhere in the world by Licensee, Licensee shall pay USC a royalty of the NET SALES PRICE.

b. If any PRODUCT is manufactured and sold under sublicense from the Licensee, the Licensee shall pay USC a royalty equal to of all of the Licensee's revenue received from the sublicense, including but not limited to earned royalty, prepaid royalty and license fees.

c. The Licensee will pay an annual minimum royalty. The minimum royalty on each PRODUCT will be commencing on the first anniversary date of this Agreement, on the second anniversary date and on the third anniversary date and thereafter for each succeeding year up to the date of expiration of the last PATENT. Minimum royalties are to be paid biannually to USC, one half due and payable on January 1 of each year and the second half due and payable on July 1 of each year. Should Licensee fail to make earned royalty payments sufficient to meet said minimum royalty requirements, it may pay the difference between the earned royalty and the minimum royalty requirement to keep this Agreement in force.

d. Licensee shall pay such royalties to USC on a calendar quarter basis. With each quarterly payment, Licensee shall deliver to USC a full and accurate accounting to include at least the following information:

i. Quantity of each PRODUCT sold (by country) by Licensee and its SUBLICENSEES;

ii. Total receipts for each PRODUCT (by country);

iii. Quantities of each PRODUCT used by Licensee and its SUBLICENSEES;

iv. Names and addresses of SUBLICENSEES of Licensee;

v. Total number of PRODUCTS manufactured (by country); and

vi. Total royalties payable to USC.

e. In each year the amount of royalty due shall be calculated quarterly as of March 31, June 30,

September 30 and December 31 and shall be paid quarterly within the next thirty (30) days following such date. Every such payment shall be supported by the accounting prescribed in Paragraph 5.d. and shall be made in United States currency. Whenever for the purpose of calculating royalties conversion from foreign currency shall be required, such conversion shall be at the rate of exchange thereafter published in the Wall Street Journal for the business day closest to the applicable end of calendar quarter.

f. The royalty payments due under this Agreement shall, if overdue, bear interest until payment at a per annum rate equal to one and a half above the prime rate in effect at Bank of America on the due date, not to exceed the maximum permitted by law. The payments of such interest shall not preclude USC from exercising any other rights it may have as a consequence of the lateness of any royalty payment.

6. RIGHTS RETAINED BY UNIVERSITY

Notwithstanding the exclusive license granted in Paragraph 4.a., USC and Inventor will have the absolute, nontransferable right to use the technology covered by the PATENTS and all improvements thereof, for conducting research and educational purposes.

7. PATENT PROSECUTION

a. USC shall file, prosecute and maintain, during the course of this

Agreement, the patent applications and patents listed in Appendix A. Should Licensee require the filing of foreign patents, USC shall take responsibility for filing, prosecuting and maintaining said foreign patents.

b. Licensee shall reimburse all reasonable legal expenses incurred and paid by USC in filing, prosecuting and maintaining the U.S. and foreign applications listed (or to be listed pursuant to Paragraph 2.a.) in Appendix A, whether such expenses were incurred before or after the date of this Agreement. These legal expenses shall include the attorneys' and agents' fees, foreign filing fees and out-of-pocket costs associated with responding to office actions and any other fees and costs directly related to obtaining and/or maintaining patent protection in the countries listed in Appendix A. Licensee shall advance payments of maintenance fees and annuities as part of such legal expenses to be reimbursed by Licensee within thirty (30) days of request by USC, unless Licensee is advised otherwise by timely notice from USC.

c. Licensee agrees to pay to USC an initial deposit of Twenty-Five Thousand Dollars ($25,000.00) within fifteen (15) days of the EFFECTIVE DATE of this Agreement. Such deposit will be held in a trust account. Licensee authorizes USC to use that account to pay all legal expenses incurred pursuant to Paragraph 7.b. When the trust account drops below Twenty-Five Thousand Dollars ($25,000.00), Licensee agrees to pay within thirty (30) days of USC's written demand, the amount to maintain the balance of the trust account at a minimum of Twenty-Five Thousand Dollars ($25,000.00). Upon termination of this Agreement, any unused deposit shall be refunded.

d. If the Licensee elects (i) not to pursue a PATENT or (ii) to terminate the prosecution or maintenance of a PATENT in any country, the Licensee surrenders its right to make, use or sell PRODUCTS covered by the non-elected PATENT in that particular country and shall grant to USC the exclusive rights previously granted to Licensee, without limitation, for that country. Licensee agrees to execute all necessary documents to carry out this grant of rights to USC. Payments referred to in Paragraphs 7.a. and 7.b. shall not be refunded upon such non-election or termination.

e. If the Licensee decides to terminate this agreement pursuant to Paragraph 16, Licensee shall reimburse all reasonable legal expenses incurred up to six (6) months from the date written notification of termination is sent to Licensee; provided, however, such legal expenses shall not exceed .

8. PATENT INFRINGEMENT

a. Defensive Controversy.

Licensee shall promptly notify USC of all claims, allegations and notifications of infringement of third party patents. Except for the placing in escrow of a portion of royalties as referred to hereinafter, USC shall have no obligation or liability in the event that legal action is brought against Licensee for patent infringement. Such obligation and liability shall be borne by Licensee. Licensee may choose legal counsel and defend the patent infringement lawsuit. During such lawsuit, Licensee may place all of the royalties derived from sales of the PRODUCT in the country where such lawsuit is pending in an interest-bearing escrow account. The escrow account shall be established in a bank mutually acceptable to both parties under escrow instructions insulating the funds from claims of any creditor. Upon termination of the action, one-half (1/2) of any judgment amount, reasonable attorneys' fees and costs, may be paid from this escrow account. Should the settlement of any such patent infringement lawsuit involve payment of royalties by Licensee to a third party for the continued right to manufacture, use, and sell the PRODUCT, then funds in the escrow account and royalties payable to USC may be applied against up to one-half (1/2) of such royalties to a third party. Any funds thereafter remaining in the escrow shall be paid to USC. The above shall constitute USC's sole liability and responsibility in the event of such action. Royalties paid to third parties as provided for above shall be included when determining whether the minimum royalty provided for in this Agreement has been paid in a given year. During the patent infringement litigation both parties shall keep each other informed in writing of significant developments in the lawsuit.

b. Offensive Controversy.

Licensee shall promptly notify USC of any potential infringement of a PATENT. In the event that a third party infringes on a PATENT, Licensee shall have the right but not an obligation to bring legal action to enforce any such patent. If Licensee exercises such right, Licensee shall select legal counsel and pay all legal fees and costs of prosecution of such action. In the event that Licensee shall choose not to take such action, USC shall have the right, at

its option and at its own expense, to prosecute any action to enjoin such infringement or to prosecute any claim for damages. The party prosecuting any such action shall be entitled to retain any funds received as a result of settlement or judgment of such action. The parties may also agree to jointly pursue infringers. After deduction and payment to the parties of their respective costs and fees (including without limitation reasonable

attorneys' fees) incurred in prosecuting any such actions, the net funds obtained as a result of settlement or of judgment of any such jointly prosecuted action shall be divided in the following manner: 25% of all net funds shall be divided equally by the parties and 75% of all the net funds shall be divided between the parties in the proportion to the amount of legal fees and costs incurred by the parties in the prosecution of such actions. If funds are insufficient to pay all costs and fees then all of the funds shall be paid to the parties in said proportion.

c. During any litigation hereunder both parties shall keep each other timely informed of any signifi cant development in the litigation and provide all reasonably requested technical assistance. During any said controversy, full royalty payment shall continue, except as otherwise provided herein.

9. RECORDS

Licensee and SUBLICENSEES shall keep complete, true and accurate books of account and records for the purpose of showing the derivation of all amounts payable to USC under this Option and License Agreement. Said books and records shall be kept at Licensee's principal place of business for at least four (4) years following the end of the calendar year to which they pertain and shall be open at all reasonable times for inspection by a representative of USC for the purpose of verifying Licensee's royalties statement or Licensee's compliance in other respects with this Option and License Agreement. All information obtained as a result of such audit shall be maintained in confidence, except that the representative may disclose to USC the aggregate amount of royalties due to USC during each year, as determined in such audit. Should an audit by USC show an underpayment of royalties by more than 10%, Licensee shall immediately pay such underpayment and all interest, as well as for USC's reasonable audit expenses.

10. SERVICES OF INVENTOR

USC shall make reasonable efforts to make Inventor available during regular business hours to answer questions concerning technical aspects of the technology necessary to understand the PATENT(S). Should Licensee desire to use the services of Inventor for further technical information and/or market studies of the technology, a separate research and development and/or consulting agreement should be negotiated with Inventor and the USC Office of Contracts and Grants.

11. SUBLICENSE PERMISSION

Licensee may sublicense the PATENT(S) only with prior written permission from USC, which permission will not be unreasonably withheld. Notwithstanding the foregoing, no permission will be granted for a sublicense unless the SUBLICENSEE agrees in writing to be bound by the terms of this Agreement.

12. PATENT MARKING

Licensee shall use reasonable efforts to place all appropriate patent and other intellectual property notices, markings and indicia on product and marketing literature for the PRODUCTS as needed to protect the patent and other intellectual property rights of USC and right for damages for infringement thereof.

13. PUBLICATIONS

Nothing in this Agreement shall limit or prevent USC or Inventor from publishing any information about the PATENT. Thirty (30) days prior to submission for publication, USC and Inventor will use their reasonable efforts to submit the proposed publication, for review only, to Licensee.

14. PUBLICITY

Neither party shall use the name, trade name, trademark or other

designation of the other party in connection with any products, promotion or advertising without the prior written permission of the other party.

15. ASSIGNMENTS/TRANSFERS

Licensee may not assign or transfer this Agreement in whole or part to any third party without the prior written permission of USC, which permission shall be granted in the sole discretion of USC. The Licensee may only assign the entire Agreement to successors of the entire business of the PRODUCTS if the successor agrees to be bound by this Agreement and prior written notice is provided to USC.

16. TERMINATION

a. Upon the breach of or default under this Option and License Agreement by either party, the non-breaching party may terminate this Option and License Agreement by forty-five (45) days written notice to the breaching party. Said notice shall be effective at the end of such period unless during said period breaching party shall remedy such defect or default. Licensee may also terminate this Agreement at any time, for any reason, by providing USC a thirty (30) day written notice and paying to USC the legal expenses incurred up to six (6) months from the date written termination is sent to Licensee. No option fees, license fees, or royalties shall be returnable. This Agreement may also be terminated immediately by USC upon notice to Licensee upon the occurrence of any of the following: (i) Licensee attempts to use, sublicense, transfer or assign its rights or obligations under this Agreement in any manner contrary to the terms of this Agreement or in derogation of USC's proprietary rights; (ii) Licensee fails to obtain and maintain the insurance coverages required by Paragraph 24 hereof; or (iii) Licensee is determined to be insolvent or makes an assignment for the benefit of creditors, or has a bankruptcy petition filed by or against it, or a receiver or trustee in bankruptcy or similar officer is appointed to take charge of all or part

of Licensee's property. Upon termination of the Agreement all rights granted to or provided by each party to the other shall automatically and irrevocably revert to the granting party.

b. Surviving any termination are:

i. Licensee's obligation to pay the amount for consideration for the grant of the option phase and royalties accrued or accruable.

ii. Licensee's obligation of Paragraph 9 to keep and allow a final audit.

iii. Any cause of action or claim of Licensee or USC, accrue or to accrue, because of any breach or default by the other party.

iv. The provisions of Paragraphs 22, 23 and 24.

c. Upon termination of this Agreement, Licensee agrees to immediately discontinue the manufacture and sale of the PRODUCTS and the use of the PATENTS. Within twenty (20) days after such termination, Licensee shall provide USC with a written inventory of all PRODUCTS currently in its stock as of the date of termination (the "INVENTORY"). USC shall have the option to grant to Licensee the privilege of disposing of such INVENTORY at its normal prices within three (3) months after said termination. Licensee shall dispose of this INVENTORY only to customers who had previously purchased PRODUCTS from Licensee during the term of this Agreement, and in no event shall Licensee sell such INVENTORY to wholesalers, diverters, jobbers or any other entity which does not sell at retail exclusively or to anyone else who intends to sell such INVENTORY at close-out. The disposition of all such INVENTORY, however, shall be subject to all of the terms and conditions of this Agreement. After the three (3) month sell-off period, Licensee shall destroy or return to USC all remaining unsold PRODUCTS, all equipment used in the manufacture of the PRODUCTS and all packaging and marketing materials, and shall certify their destruction or return to USC specifying the number of each destroyed or returned. All royalty obligations, including any unpaid portions of the minimum royalty, shall be accelerated and shall become immediately due and payable. In addition, Licensee shall immediately deliver to USC (i) all materials relating to the PATENTS, together with all copies thereof, and (ii) all market studies or other tests or studies conducted by Licensee with respect to the PRODUCTS, all at no cost whatsoever to USC.

d. LICENSEE acknowledges and agrees that any violation of this

Agreement by Licensee would result in irreparable harm to USC. Accordingly, Licensee consents and agrees that, if Licensee violates any of the provisions of this Agreement, USC shall be entitled, in addition to other remedies available to it, to an injunction to be issued by any court of competent jurisdiction restraining Licensee from committing or continuing any violation of this Agreement, without the need for posting any bond or any other undertaking.

17. NOTICES, REPORTS AND PAYMENTS

Any notice, report or payment permitted or required under this Agreement shall be in writing, and shall be sent or delivered to the receiving party at the address set forth below or at such address as either party may from time to time designate in writing.

USC: Office of Technology Licensing
University of Southern California
3716 South Hope Street, Suite 313
Los Angeles, California 90007-4344 (U.S.A.)

Attn: Director

LICENSEE: BioKeys, Inc.
11466 Winding Ridge Drive
San Diego, California 92141

Attn: Nicholas Jon Virca
President & Chief Executive Officer

18. PARAGRAPH HEADINGS

Paragraph headings are for the convenience of this Agreement only and shall not add to or detract from any of the terms or provisions.

19. SEVERABILITY

If any provision of this Agreement is held invalid under any law applicable to the parties, SUBLICENSEES and/or assignees, that provision shall be considered severable and its invalidity shall not affect the remainder of this Agreement, which shall continue in full force and effect.

20. CONTROLLING LAW, JURISDICTION AND VENUE

This Agreement shall be deemed to be executed and to be performed in the State of California, and shall be construed in accordance with the laws of the State of California as to all matters, including but not limited to matters of validity, construction, effect and performance. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this agreement, such controversy, claim or dispute may be tried exclusively in the courts of the State of California or in the United States Federal District Court for the Central District of California, as either party may elect. Each of the parties hereby waives any defense of lack of in personam jurisdiction, improper venue and forum non conveniens, and agrees that service of process of such court may be made upon each of them by personal delivery or by mailing certified or registered mail, return receipt requested, to the other party at the address provided for in Paragraph 17 hereof. Both parties hereby submit to the jurisdiction of the court

so selected, to the exclusion of any other courts which may have had jurisdiction apart from this Paragraph 20.

21. TERM OF THE AGREEMENT

Except as otherwise terminated pursuant to the other provisions of this OPTION AND LICENSE AGREEMENT, this Agreement shall terminate upon expiration of the last to expire of the patents or fifteen (15) years from the Effective Date of this Agreement, whichever is longer.

22. NEGATION OF WARRANTIES

a. Nothing in this Agreement shall be construed as:

i. a warranty or representation by USC as to the validity or scope of the PATENT and/or PATENT Application; or

ii. a warranty or representation that any PRODUCTS made, used, sold or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents of third parties; or

iii. an obligation to bring or prosecute actions or suits against third parties for infringement; or

iv. conferring the rights to use in advertising, publicity or otherwise any trademark, trade name, or names or any contraction, abbreviation, simulation or adoption thereof, of USC or Licensee; or

v. any obligation to furnish any know-how not provided.

b. USC MAKES NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, nor does USC represent that the rights granted hereunder will result in PRODUCTS that are commercially successful.

c. Licensee further agrees that it will not rely upon technical information provided by USC and Inventor in developing and manufacturing any PRODUCTS hereunder, but will independently test, analyze and evaluate all PRODUCTS prior to manufacture and distribution of such PRODUCTS.

d. UNDER NO CIRCUMSTANCES SHALL USC BE LIABLE TO LICENSEE OR ANY OF ITS SUBLICENSEES FOR ANY INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES ARISING OUT OF OR IN CONNECTION WITH THE AGREEMENT. NOTWITHSTANDING THE FOREGOING, UNDER NO CIRCUMSTANCE SHALL USC HAVE ANY CUMULATIVE LIABILITY FOR ANY CLAIM ARISING FROM THIS AGREEMENT IN EXCESS OF THE TOTAL AMOUNTS PAID BY LICENSEE TO USE UNDER THIS AGREEMENT.

23. INDEMNITY

a. Licensee shall defend, indemnify and hold harmless USC and its trustees, officers, medical and professional staff, employees and agents and their respective successors, heirs and assigns (the "Indemnitees"), against all liabilities, demands, losses, costs, and expenses (including without limitation attorneys' fees) incurred by or imposed upon the Indemnitees or any one of them in connection with any claims, suits, actions, demands or judgments arising out of any theory of liability (including but not limited to, actions in the form of tort, warrantee, or strict liability) for death, personal injury, illness, or property damage arising from Licensee's use, sale, or other disposition of the PRODUCT(S).

b. Licensee agrees, at its own expense, to provide attorneys reasonably acceptable to USC to defend against any actions brought or filed against any party indemnified hereunder with respect to the subject of indemnity contained herein, whether or not such actions are rightfully brought. To the extent that any proposed settlement directly affects USC, the Licensee shall obtain the approval of USC before finally agreeing to such settlement proposal, which consent shall not be unreasonably withheld.

24. INSURANCE

a. Not less than thirty (30) days prior to the exercise of the license phase of this Agreement, Licensee shall at its sole cost and expense, procure and maintain in effect a comprehensive general liability policy of insurance in single limit coverage of not less than per incident and annual aggregate for death, bodily injury or illness and annual aggregate in property damage. Such comprehensive general liability insurance shall provide (i) product liability coverage and (ii) broad form contractual liability coverage for Licensee's indemnification. If Licensee elects to self-insure all or part of the limits described above (including deductibles or retention which are in excess of annual aggregate) such self-insurance program must be acceptable to USC. Each such policy of insurance shall name USC as an additional insured and shall provide for not less than thirty (30) days prior written notice before any cancellation or material change in coverage shall be effective. A Certificate evidencing the comprehensive general liability policy herein defined shall be delivered to USC within ten (10) days of the EFFECTIVE DATE of this agreement. Licensee shall maintain such comprehensive general liability insurance until such time as the policy in Paragraph 24.b. or Paragraph 24.c is procured, or until fifteen (15) years after the term of this Agreement.

b. During such time and in each country where PRODUCT, or any modification thereof, is utilized in human clinical trials by Licensee or any SUBLICENSEE, Licensee shall at its sole cost and expense, procure and maintain

in effect a comprehensive general liability policy of insurance in single limit coverage of not less than per incident and annual aggregate for death, bodily injury, illness or property damage. Such comprehensive general liability insurance shall provide (i) product liability coverage and (ii) broad form contractual liability coverage for Licensee's indemnification. If Licensee elects to self-insure all or part of the limits described above (including deductibles or retention which are in excess of annual aggregate) such self-insurance program must be acceptable to USC. Each such policy of insurance shall name USC as an additional insured and shall provide for not less than thirty (30) days prior written notice before any cancellation or material change in coverage shall be effective. A Certificate evidencing the comprehensive general liability

policy herein defined shall be delivered to USC prior to any manufacture, sale, distribution or administration to humans. Licensee shall maintain such comprehensive general liability insurance until such time as the policy in Paragraph 24.c is procured, or until fifteen (15) years after the term of this Agreement.

c. During such time and in each country where PRODUCT, or any modification thereof, is administered to humans, manufactured or distributed for any purpose other than for human clinical trials as specified in Paragraph 23.b (including for the purpose of obtaining regulatory approvals) by Licensee or any SUBLICENSEE, Licensee shall at its sole cost and expense, procure and maintain in effect a comprehensive general liability policy of insurance in single limit coverage of not less than per incident and annual aggregate for death, bodily injury, illness or property damage. Such comprehensive general liability insurance shall provide (i) product liability coverage and (ii) broad form contractual liability coverage for Licensee's indemnification. If Licensee elects to self-insure all or part of the limits described above (including deductibles or retention which are in excess of annual aggregate) such self-insurance program must be acceptable to USC. Each such policy of insurance shall name USC as an additional insured and shall provide for not less than thirty (30) days prior written notice before any cancellation or material change in coverage shall be effective. A Certificate evidencing the comprehensive general liability policy herein defined shall be delivered to USC prior to any manufacture, sale, distribution or administration to humans. Licensee shall maintain such comprehensive general liability insurance during the period that the PRODUCT or any modification thereof is being manufactured, sold, distributed or administered to humans by the Licensee or its SUBLICENSEES and a reasonable period thereafter which in no event shall be less than fifteen (15) years.

d. In the event that Licensee does not maintain such insurance, but is self-insured, or carries a substantial self-retention, USC may grant permission for such self-insurance only if, in the sole discretion of USC, the net worth, assets and earnings of the Licensee are deemed sufficient to protect USC's economic interests in the event of claims, liability, demands, damages, expenses and losses from death, personal injury, illness, or property damage.

e. The minimum amounts of insurance coverage required under this Paragraph (subparts 24.a., 24.b., and 24.c.) shall not be construed to create a limit of Licensee's liability with respect to its indemnification in Paragraph 23 or any other provision of this Agreement.

f. By SUBLICENSEES

As a condition precedent to a grant of permission by USC for Licensee to sublicense the PATENT rights herein, the prospective SUBLICENSEE shall agree to indemnify Licensee and USC to the same extent and degree as Licensee has agreed to indemnify USC herein. Such SUBLICENSEE shall also provide insurance identical in coverage and amount to that required of Licensee in subparagraph b, above, naming both Licensee and USC as additional insured. A Certificate evidencing the comprehensive general liability policy shall be delivered to USC prior to USC's giving permission for such sublicensing agreement and a Certificate evidencing the product liability coverage shall be delivered prior to first manufacture of any PRODUCTS by the SUBLICENSEE. In the event a prospective SUBLICENSEE does not maintain such insurance, but is self-insured, or carries a

substantial self-retention, USC may grant permission for such sublicense only if, in the sole discretion of USC, the net worth, assets and earnings of such prospective SUBLICENSEE are deemed sufficient to protect USC's economic interests in the event of claims, liability, demands, damages, expenses and

losses from death, personal injury, illness, or property damage.

25. ATTORNEYS' FEES

In any action on or concerning this Agreement, the prevailing party shall be awarded its reasonable attorneys' fees, costs and necessary disbursements, to be paid by the nonprevailing party.

26. PRODUCT DEVELOPMENT

If Licensee exercises its option, Licensee shall use diligent efforts to test and develop the PRODUCT for commercial purposes throughout the world. On or before January 1 of each year during the term of this Agreement, commencing on the EFFECTIVE DATE of this Agreement, Licensee shall submit to USC a report detailing its research, regulatory approval, marketing and product development objectives the coming year as well as the research, regulatory approval, marketing and development activities which Licensee undertook during the preceding year. The reports shall identify specific future milestones (regulatory approval and product development) and information demonstrating that the Licensee is providing sufficient financial and manpower resources to evidence its use of reasonable efforts. If USC desires to know the status of the development of PRODUCTS before January 1, USC shall make a request in writing for the status and Licensee shall provide, within fifteen (15) days, a written summary of the status of such development of PRODUCT(S). Within six (6) months after the signing of this Agreement and each two (2) years thereafter, a representative from the USC Technology Licensing Office, at Licensee's expense (including transportation, and, if appropriate, lodging and meals), shall visit the manufacturing and marketing facilities of Licensee and be presented with an in-depth updating of the manufacturing capability and marketing network of Licensee.

27. EXPORT CONTROLS

It is understood that USC is subject to United States laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (such laws include the Arms Export Control Act, as amended and the Export Administration Act), and that its obligations hereunder are contingent on compliance with applicable United States export laws and regulations. The transfer of certain technical data and commodities by the Licensee may require a license from the cognizant agency of the United States Government and/or written assurances by Licensee that Licensee shall not export data or commodities to certain foreign countries without prior approval of such agency. USC neither represents that a license shall not be required nor that, if required, it shall be issued. Licensee shall not engage in any activity in connection with this Agreement that is in violation of any applicable U.S. law.

28. INDEPENDENT CONTRACTOR

In rendering performances under this Agreement, Licensee will function solely as an independent contractor and not as agent, partner, employee or joint venturer with USC. Nothing in this Agreement shall be deemed or construed to create the relationship of principal and agent, or of partnership or joint venture, and neither party shall hold itself out as an agent, legal representative, partner, subsidiary, joint venturer, servant or employee of the other. Neither party nor any officer, employee, agent or representative thereof shall, in any event, have any right, collectively or individually, to bind the other party, to make any representations or warranties, to accept service of process, to receive notice or to perform any act or thing on behalf of the other party, except as expressly authorized under this Agreement or in writing by such other party in its sole discretion.

29. WAIVER

No waiver by either party of any default or breach shall be deemed as a waiver of prior or subsequent default or breach of the same or other provisions of this Agreement.

30. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof. No amendment, modification, extension or cancellation of this Agreement shall be binding on the parties unless mutually agreed to and executed in writing by each of the parties.

UNIVERSITY OF SOUTHERN CALIFORNIA BIOKEYS, INC.

/s/ DENNIS F. DOUGHERTY	/s/ NICHOLAS JON VIRCA
Dennis F. Dougherty Senior Vice President, Administration	Nicholas Jon Virca President & Chief Executive Officer
8/17/2000	8/17/2000
(Date)	(Date)

APPENDIX A

USC# TITLE SERIAL # DATE PATENT # COUNTRY
-------- 2227 Preparation and Use of Thiophosphonates 369,468 6/21/89 5,072,032 United States and Thio-Analogues Of Phosphonoformic Acid
2227A Preparation and Use of 768,155 9/30/91 5,183,812 United States Thiophosphonates and Thio-Analogues Of Phosphonoformic Acid
2633 Improved Preparations of Thiophosphites 09/304,252 5/3/99 United States and Thiophosphonates
2633 Improved Preparations of Thiophosphites 5/3/00 PCT and Thiophosphonates
2788A Preparation and Use of Alpha-Keto 09/352,236 7/13/99 United States Bisphosphonates
2789 Preparation and Use of Sulfur-Containing 60/092,560 7/13/98 United States Phosphonoformate Analogues
2871 Synthesis and Use Of Lipophilic 60/125,805 3/23/99 United States Phosphonocarboxylate Derivatives

Exhibit 10.6

EXECUTIVE EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of the 1st day of December, 1999, by and between Warren C. Lau (the "Executive"), an individual residing 16702 Tennison Court, Spring, Texas, 77379 and BioQuest, Inc. (the "Company") with a place of business at 333 N. Sam Houston Parkway, Suite 1035, Houston Texas 77060

W I T N E S S E T H:

WHEREAS, the Executive is currently employed by the Company as its President and Chief Operating Officer, and the Company desires that the Executive shall continue to be employed by it and render services to it, and the Executive is willing to continue to be so employed and to render services, all upon the terms and subject to the conditions set forth herein.

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

1. EMPLOYMENT, DUTIES AND ACCEPTANCE.

1.1 The Company hereby employs Executive, and the Executive hereby accepts employment, for the term ("Term) set forth in Section 2 hereof, to render services to Company as its President and Chief Operating Officer. The Executive represents and warrants to the Company that he has full power and authority to enter into this Agreement and that he is not under any obligation of a contractual or other nature to any person, firm or corporation which is inconsistent or in conflict with this Agreement, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

1.2 The Executive will serve as President and Chief Operating Officer of the Company and as a member of its Board of Directors when elected as such, will have general supervision over the operations of the Company and will have such other duties and responsibilities, consistent with his position as President and Chief Operating Officer, as may reasonably be assigned to him by the Board of Directors of the Company. The Executive will report to the Board of Directors of the Company.

1.3 The Executive shall devote his full business time to the business and affairs of the Company, and shall use his best efforts, skills, and abilities to promote the interests of the Company, except for reasonable vacations and during periods of illness or incapacity, but nothing contained in this Agreement shall prevent the Executive from engaging in charitable or community activities provided they do not interfere with the regular performance of the Executive's duties and responsibilities under this Agreement.

1.4 Unless the Executive and the Company shall otherwise agree, the Executive's principal place of employment shall be in and around Houston, Texas, but the duties of the Executive shall include such visits to the Company's research sites, vendors,, customers, and investors and lenders at the expense of the Company, as may be reasonably required in the performance of the Executive's responsibilities.

2. TERM. 2.1 The Term of this Agreement will commence as of December 1, 1999 and will terminate at the close of business on November 30, 2002, unless sooner terminated in accordance with the provisions of this Agreement. The employment of the Executive shall continue hereunder for successive one-year periods (each such one-year period being hereinafter referred to as a "Renewal Term") following the Term (the first such Renewal

Term to commence on December 1, 2002) unless the Company or Executive shall give notice to the other at least sixty (60) days prior to the end of the Term or any Renewal Term of the election of the Company or the Executive to terminate the employment of the Executive at the end of the Term or the then current Renewal Term, as the case may be. The twelve month period from December 1 in any year to the following November 30 shall be an "Employment Year".

3. BASE SALARY.

3.1 For all services performed by the Executive under this Agreement, the Executive shall be paid a base salary ("Base Salary") at the following annual rates:

EMPLOYMENT YEAR	BASE SALARY
2000	$ 114,000
2001	114,000
2002	114,000

Notwithstanding the foregoing specified amounts of Base Salary, (i) if the Consumer Price Index applicable to the Standard Metropolitan Statistical Area in which the Company's executive offices are located shall increase in any year during the Term, the Base Salary shall be increased at the end of each Employment Year to reflect such percentage change in the Consumer Price Index, and (ii) the Board of Directors may award increases in Base Salary greater than those provided above after a review taking into account corporate and individual performance, the Company's prospects and general business conditions.

3.2 Base Salary shall be paid in equal monthly or semi-monthly installments in keeping with the Company's standard payroll policies applicable to its senior executives.

4. ANNUAL BONUS.

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

5. REIMBURSEMENT FOR EXPENSES.

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

6. VACATIONS.

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

7. EMPLOYEE BENEFIT PROGRAMS, ETC.

7.1 Without limiting the generality of Section 5, above, the Company shall reimburse the Executive by means of a cash allowance for expenses incurred by the Executive in

the use if his automobile in the performance of Executive's duties, along with the cost of garage, insurance, fuel, fluids and maintenance, upon such terms and conditions as are approved by Company. The Company shall pay or reimburse the Executive for the costs of a cellular telephone.

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

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

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

7.4 Nothing herein contained shall prevent the Company from at any time increasing the compensation herein provided to be paid to Executive, either permanently or for a limited period, or from paying bonuses and other additional compensation to Executive, whether or not based upon the earnings of the business of Company, or from increasing or expanding any

employee benefit program applicable to the Executive, in the event the Company, in its sole discretion, shall deem it advisable so to do in order to recognize and compensate Executive fairly for the value of his services.

8. DEATH OR DISABILITY.

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

8.2 In the event of the Disability (as hereinafter defined) of the Executive, the Executive shall be entitled to continue to receive from the Company and its several benefit plans an amount equal to his Base Salary (prorated as may be necessary) in accordance with the terms of Section 3 hereof through the last day of the third month following the month in which Executive's employment hereunder is terminated as a result of such Disability. At any time after the date of the Notice (as hereinafter defined) and during the continuance of the Executive's Disability, the Company may at any time thereafter terminate Executive's employment hereunder by written notice to the Executive. The term "Disability" shall mean physical or mental illness or

injury which prevents the Executive from performing his customary duties for the Company for a period of twenty-five (25) consecutive business days or an aggregate period of ninety (90) days out of any consecutive twelve (12) months. The date of commencement of Disability shall be the date set forth in the notice of a determination of Disability (the "Notice") given by Company to the Executive at any time following a determination of Disability, which date shall not be earlier than the date the Notice is given by Company. A determination of Disability by Company shall be solely for the purposes of this Section 8.2 and shall in no way affect the Executive's status under any benefit plan applicable to the Executive.

8.3 Upon the occurrence of a Disability, and unless the Executive's employment shall have been terminated as provided in Section 8.2, the Executive shall continue to perform such services for Company, consistent with his duties under Section 1 hereof, as he is reasonably capable of performing in light of the condition giving rise to a Disability. All payments due under Section 8.2 shall be payable in accordance with Company's regular payroll practices. Those payments, together with the aggregate amount of all periodic payments which the Executive is entitled to receive under all workers compensation plans, disability plans and accident, health or other insurance plans or programs maintained for the Executive by Company (or by any company controlling, controlled by or under common control with the Company), shall be not less than Executive's Base Salary for the month or period in question.

8.4 If the Executive's employment is terminated due to Disability, the Executive shall be entitled, in addition to the payments described in Section 8.2, to a pro-rated portion of the Annual Bonus otherwise payable for the fiscal year in which such Disability occurs, determined by multiplying the Annual Bonus that would otherwise be payable by a

fraction, the numerator of which is the number of days the Executive was employed during such fiscal year and the denominator of which is 360.

9. TERMINATION FOR CAUSE.

9.1 The employment of the Executive may be terminated by the Company for Cause. For this purpose, "Cause" shall mean:

(i) conviction of the commission of a felony;

(ii) fraudulent or dishonest acts against the Company;

(iii) illegal drug use on the premises of the Company at any time or elsewhere during the working day;

(iv) willful gross misconduct which in the good faith opinion of a majority of the Board of Directors of the Company is likely to cause either significant financial loss to the Company or significant damage to its business reputation;

(v) willful and repeated misconduct constituting bad faith in performing the Executive's obligations; or

(vi) repeated gross neglect of the Executive's duties.

The Executive's employment shall not be terminated for Cause under clauses (ii), (iv), (v) or (vi) unless (a) the Executive has received at least 15 days notice of a meeting of the Board of Directors to consider the existence of Cause with an opportunity to be heard before the Board, and the Board has determined, based upon credible evidence, that grounds for Cause exist, AND (b) the misconduct or breaches on which an assertion of Cause is based are not cured within 30 days thereafter if such misconduct or breaches are capable of being cured.

9.2 In the event of a termination for Cause, the Executive shall (a) be entitled to any unpaid Base Salary pro rated up to the date of termination, and (b) have no further rights under this Agreement or under any Incentive Option issued hereunder.

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

10.1 A "Change in Control" shall occur: (A) if any Person, or combination of Persons, (as hereinafter defined), or any affiliate of any Person, is or becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) directly or indirectly, of securities of the Company representing twenty- five percent (25%) or more of the total number of outstanding shares of common stock of the Company; or (B) if individuals who, at the date of this Agreement, constitute the Board (the "Incumbent Directors") cease, for any reason, to constitute at least a majority thereof, provided that any new director whose election was approved by the favorable vote of at least 75% of the Incumbent Directors shall be treated as an Incumbent Director. For purposes hereof, "Person" shall mean any individual, partnership, joint venture, association, trust, or other entity, including a "group" as referred to in section 13(d)(3) of the Securities Exchange Act of 1934.

10.2 If a Change in Control occurs, and if there subsequently occurs a material adverse change, without the Executive's written consent, in the Executive's working conditions or status, including but not limited to a significant change in the nature or scope of the Executive's authority, powers, duties or responsibilities, or a reduction in the level of support services or staff, then, whether or not such change would otherwise constitute a breach of this Agreement by the Company, this Agreement may be terminated by notice given by the Executive, specifying the Change of Control and significant adverse change or changes.

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

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

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

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

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

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

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

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

11. TERMINATION BY EXECUTIVE.

11.1 If the Executive shall terminate his employment under this Agreement prior to the third anniversary of the date hereof without either (i) a Change of Control or (ii) the express written consent of the Company, then, for purposes of establishing the rights of the Executive upon such termination, such termination shall be deemed the equivalent of a termination for Cause under Section 9.1, and the Executive shall have only those rights with regard to compensation as are set forth in Section 9.2, and the restrictive provisions of Section 12 below shall fully apply.

11.2 If the Executive shall terminate his employment under this Agreement after the third anniversary of the date hereof without either (i) a Change of Control or (ii) the express written consent of the Company, then, for purposes of establishing the rights of the Executive upon such termination, the Executive shall be entitled to receive all unpaid Base Salary pro-rated up to the date of termination.

11.3 In the case of a termination pursuant to Section 11.2, the restrictions set forth in Section 12 shall apply to Executive for the period therein stated, and the Executive shall receive the compensation set forth therein.

12. RESTRICTIVE COVENANTS.

12.1 During such time as this Agreement shall be in effect and, except as otherwise explicitly stated herein, for a period of twelve (12) months following the termination of Executive's employment, and without the Company's prior written consent (which may be withheld for any reason or for no reason in Company's sole discretion), Executive shall not do anything in any way inconsistent with his duties to or adverse to the interests of Company, and shall not, directly or indirectly, himself or by or through a family member or

otherwise, alone or as a member of a partnership or joint venture, or as a principal, officer, director, consultant, employee or stockholder of any other entity, compete with Company or be engaged in or connected with any other business competitive with that of Company, except that Executive may own as a passive investment not more than five percent (5%) of the securities of any publicly held corporation that may engage in a business competitive with that of Company.

12.2 In view of the fact that Executive will be brought into close contact with many confidential affairs of Company not readily available to the public, Executive agrees during the Term of this Agreement and thereafter:

(a) to keep secret and retain in the strictest confidence all information about (i) research and development plans and operations, new technology, pending or proposed license agreements, products, financial condition and other financial affairs (such as costs, pricing, plans for future development, joint ventures, methods of operation and marketing goals) of the Company; (ii) its employment policies and plans; and (iii) any other proprietary information relating to the Company, its operations, businesses, financial condition and financial affairs (collectively, the "Confidential Information") and,

for such time as Company is operating, not to disclose the Confidential Information to anyone not then an officer, director or authorized employee of Company, either during or after the term of this agreement, except in the course of performing his duties hereunder or with Company's express written consent or except to the extent that such confidential information can be shown to have been in the public domain through no fault of Executive; and

(b) to deliver to Company within ten days after termination of his services, or at any time Company may so request, all memoranda, notes, records, reports and other documents relating to Company, businesses, financial affairs or operations and all property associated therewith, which he may then possess or have under his control.

12.3 Executive shall not at any time during the twelve month period following the termination of his employment for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, (i) employ any individual who was employed by Company at any time during the such period or during the twelve calendar months immediately preceding such termination, or (ii) in any way cause, influence or participate in the employment of any such individual by anyone else in any business that is competitive with any of the businesses engaged in by Company.

12.4 Executive shall not at any time during the twelve (12) month period following the termination of his employment, for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, directly or indirectly (i) persuade or attempt to persuade any customer or client or research and development venture partner of Company to cease doing business with Company or any Affiliate or to reduce the

amount of business it does with Company or (ii) solicit for himself or any person other than Company, the business of any individual or business which was a customer or client of Company at any time during the twelve month period immediately preceding such termination.

12.5 Executive acknowledges that the execution and delivery by him of the covenants set forth in this Section 12 is an essential inducement to Company to retain Executive and to enter into this agreement, and that Company would not have retained Executive and entered into this Agreement but for such covenants. Executive further acknowledges that his services are unique and that any breach or threatened breach by Executive of any of the foregoing provisions of this Section 12 cannot be remedied solely by damages. In the event of a breach or a threatened breach by Executive of any of the provisions of this Section 12, Company shall be entitled to injunctive relief restraining Executive and any business, firm, partnership, individual, corporation or other entity participating in such breach or attempted breach. Nothing herein, however, shall be construed as prohibiting Company from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages and the immediate termination of the employment of Executive hereunder.

12.6 If any of the provisions of, or covenants contained in, this Section 12 are hereafter construed to be invalid or unenforceable in any jurisdiction, the same shall not affect the remainder of the provisions or the enforceability thereof in any other jurisdiction, which shall be given full effect, without regard to the invalid portions or the unenforceability in such other jurisdiction. If any of the provisions of or covenants contained in this Section 12 are held to be unenforceable in any jurisdiction because of the duration or scope thereof, the parties hereto agree that the court making such determination shall have the power to reduce the duration

and/or scope of such provision or covenant and, in its reduced form, said provision or covenant shall be enforceable; PROVIDED, however, that the determination of such court shall not affect the enforceability, duration or scope of this Section 12 in any other jurisdiction.

13. RELATIONSHIP OF PARTIES.

Nothing herein contained shall be deemed to constitute a partnership between or a joint venture by the parties, nor shall anything herein contained be deemed to constitute either the Executive or the Company the agent of the other except as is expressly provided herein. Neither Executive nor Company shall be or become liable or bound by any representation, act or omission whatsoever of the other party made contrary to the provisions of this Agreement.

14. KEY MAN INSURANCE.

The Company, in its discretion, may apply for and procure in its own name and benefit, life insurance on a the life of the Executive and disability insurance in any amount or amounts considered advisable by the Company, and the Executive shall submit to any medical or other examination and execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance.

15. NOTICES.

All notices and communications hereunder shall be in writing and delivered by hand or sent by registered or certified mail, postage and registration or certification fees prepaid, return receipt requested, or by overnight delivery such as Federal Express, and shall be deemed given when hand delivered or upon three (3) business days after the date when mailed, or upon one (1) business day after delivery to an agent for overnight delivery, if sent in such manner, as follows:

If to Company:	BioQuest, Inc. 333 N. Sam Houston Parkway, Suite 1035, Houston Texas 77060 Attn: Board of Directors
With a copy to:	Bresler Goodman & Unterman, LLP 521 Fifth Avenue 28th Floor New York, NY 10175 Attn: Seymour H. Bucholz
If to Executive:	Warren C. Lau 16702 Tennison Court, Spring, Texas, 77379

The foregoing addresses may be changed by notice given in the manner set forth in this Section 15.

16. DISPUTES.

Any dispute or controversy arising under or in connection with this Agreement shall be resolved in the manner set forth in Schedule A. Notwithstanding the foregoing, Company shall have the right to apply to any court having jurisdiction over Executive to seek injunctive or other emergency relief in the event Executive breaches, or threatens to breach, any of his covenants set forth in Section 12.

17. MISCELLANEOUS.

17.1 This Agreement contains the entire understanding of the parties hereto with respect to the employment of Executive by Company during the term hereof, and the provisions hereof may not be altered, amended, waived, terminated or discharged in any way whatsoever except by subsequent written agreement executed by the party charged therewith. This Agreement supersedes all prior employment agreements, understandings and arrangements between Executive and Company pertaining to the terms of the employment of Executive. A waiver by either of the parties of any of the terms or conditions of this Agreement, or of any breach hereof, shall not be deemed a waiver of such terms or conditions for the future or of any other term or condition hereof, or of any subsequent breach hereof.

17.2 The provisions of this Agreement are severable, and if any provision of this Agreement is invalid, void, inoperative or unenforceable, the balance of the Agreement shall remain in effect, and if any provision is inapplicable to any circumstance, it shall nevertheless remain applicable to all other circumstances.

17.3 Company shall have the right to deduct and withhold from Executive's compensation the amounts required to be deducted and withheld pursuant to any present or future law concerning the withholding of income taxes. In the event that Company makes any payments or incurs any charges for Executive's account or Executive incurs any personal charges with Company, Company shall have the right and Executive hereby authorizes Company to recoup such payments or charges by deducting and withholding the aggregate amount thereof from any compensation otherwise payable to Executive hereunder.

17.4 Executive represents that he is under no disability, restriction or prohibition from entering this Agreement or performing the services required hereunder; and also that he has been represented and advised by independent legal counsel in connection with the negotiation, preparation and execution of this Agreement.

17.5 This Agreement shall be construed and interpreted under the laws of the State of Delaware applicable to contracts executed and to be performed entirely therein.

17.6 The captions and section headings in this Agreement are not part of the provisions hereof, are merely for the purpose of reference and shall have no force or effect for any purpose whatsoever, including the construction of the provisions of this Agreement.

17.7 To the extent any provision of this Agreement contemplates action after termination hereof or creates a cause of action or claim on which action may be brought by either party, such provision, cause of action or claim shall survive termination of Executive's employment or termination of this Agreement.

17.8 Executive may not assign his rights nor delegate his duties under this Agreement; provided, however, that notwithstanding the foregoing this Agreement shall inure to

the benefit of Executive's legal representatives, executors administrators or successors and to the successors or assigns of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

BIOQUEST, INC.

By: _____
Chairman of the Board of Directors

/S/ WARREN C. LAU
_____
Warren C. Lau

SCHEDULE A

RESOLUTION OF DISPUTES OR CONTROVERSIES

(a) If the parties are deadlocked on any issue arising under the terms of this Agreement, a tiebreaker shall be chosen by lot from among a panel of three persons designated by the Dean of the College of Business Administration at the University of Houston. Each party may present its proposal to the designated tiebreaker in written form and may, on a date established by the tiebreaker within ten calendar days of the day the tiebreaker is chosen, make an oral presentation not to exceed two hours in length, accompanied by exhibits and written arguments not to exceed 20 pages in length. The designated tiebreaker shall then select one of the submitted proposals, without any change or adjustment, and shall announce to the parties his or her selection within five calendar days of the day of submission.

(b) The general administrative costs of designating the tiebreaker panel shall be paid by the Company. The cost of each specific tiebreaker decision shall be borne by the party whose proposal was NOT accepted by the tiebreaker. Included in the cost of a tiebreaker decision are costs for expert advisors, preparation of special data or other submissions to the tiebreaker, and legal fees if a proponent has sought the assistance of counsel in presenting a matter to the tiebreaker.

Exhibit 11.1

STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS (LOSS)

The statement regarding computation of per share earnings (loss) is set forth in Note 10 of the Notes to the Consolidated Financial Statements of the Company.

Exhibit 21.1

SUBSIDIARIES OF BIOKEYS PHARMACEUTICALS, INC.

Biokeys Pharmaceuticals. Inc. has one wholly owned subsidiary, Biokeys, Inc., a Delaware corporation.

EXHIBIT 24.1

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the day of September, 2001.

BIOKEYS PHARMACEUTICALS, INC.

By: /s/ LOUIS R. REIF
Louis R. Reif, Chairman and Chief Executive Officer

By: /s/ WARREN C. LAU
Warren C. Lau, President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints LOUIS R. REIF and WARREN C. LAU, or either of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities to sign the Registration Statement of Biokeys Pharmaceuticals, Inc. on Form 10SB, and any and all amendments (including post-effective amendments) to such Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agents or any of them or their or his substitute or substitutes, may unlawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Registration Statement or thereto has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ LOUIS REIF --- Louis R. Reif	Director	September 26, 2001
/s/ ROBERT D. WHITWORTH --- Robert D. Whitworth	Director	September 26, 2001
/s/ WARREN C. LAU --- Warren C. Lau	Director	September 26, 2001