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

SCHEDULE 13D

UNDER THE SECURITIES EXCHANGE ACT OF 1934

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13d-2(a)

ProPhase Labs, Inc.
(Name of Issuer)

Common Stock, $0.0005 Par Value
(Title of Class of Securities)

74345W108
(Cusip Number)

Matrixx Initiatives, Inc.
1 Grand Commons, Suite 130
Bridgewater, New Jersey 08807
Attn: Marylou Arnett

with a copy to:

Kirkland & Ellis LLP
300 North LaSalle Street
Chicago, IL 60654
Attn: James S. Rowe
Michael H. Weed, P.C.
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

September 4, 2012
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. ☐

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240. 13d-7 for other parties to whom copies are to be sent.

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	NAME OF REPORTING PERSON: Matrixx Initiatives, Inc.		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER -0-
		8	SHARED VOTING POWER 1,453,427 (1)
		9	SOLE DISPOSITIVE POWER -0-
		10	SHARED DISPOSITIVE POWER -0-
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): CO		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: Wonder Holdings Acquisition Corp.		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER -0-
		8	SHARED VOTING POWER 1,453,427 (1)
		9	SOLE DISPOSITIVE POWER -0-
		10	SHARED DISPOSITIVE POWER -0-
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): CO		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: H.I.G. Bayside Debt & LBO Fund II, L.P.		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**7**	SOLE VOTING POWER -0-	
	8	SHARED VOTING POWER 1,453,427 (1)	
	9	SOLE DISPOSITIVE POWER -0-	
	10	SHARED DISPOSITIVE POWER -0-	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): PN		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: H.I.G. Bayside Advisors II, LLC		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER -0-
		8	SHARED VOTING POWER 1,453,427 (1)
		9	SOLE DISPOSITIVE POWER -0-
		10	SHARED DISPOSITIVE POWER -0-
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): OO		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: H.I.G.-GPII, Inc.		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**7**	SOLE VOTING POWER -0-	
	8	SHARED VOTING POWER 1,453,427 (1)	
	9	SOLE DISPOSITIVE POWER -0-	
	10	SHARED DISPOSITIVE POWER -0-	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): CO		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: Sami W. Mnaymneh		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: United States		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER -0-
		8	SHARED VOTING POWER 1,453,427 (1)
		9	SOLE DISPOSITIVE POWER -0-
		10	SHARED DISPOSITIVE POWER -0-
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): IN		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

1	NAME OF REPORTING PERSON: Anthony A. Tamer		
	I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) ☐ (b) ☒		
3	SEC USE ONLY:		
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): OO		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E): ☐		
6	CITIZENSHIP OR PLACE OF ORGANIZATION: United States		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER -0-
		8	SHARED VOTING POWER 1,453,427 (1)
		9	SOLE DISPOSITIVE POWER -0-
		10	SHARED DISPOSITIVE POWER -0-
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,453,427 (1)		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): ☐		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.80% (1)		
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): IN		

(1) Beneficial ownership of the Common Stock of the Issuer is being reported hereunder solely because the reporting person may be deemed to have beneficial ownership of such Common Stock as a result of the relationships described under Item 2 and Item 3 and the matters described in Item 3, Item 4 and Item 5 of this Schedule 13D. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by any of the reporting persons that it is the beneficial owner of any shares of Common Stock referred to herein for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose, and such beneficial ownership is expressly disclaimed. The above calculations are based on 14,836,340 shares of Common Stock outstanding as of August 13, 2012.

Item 1 Security and Issuer

The class of equity securities to which this Schedule 13D (this "Schedule 13D") relates is the common stock, $0.0005 par value per share ("Shares"), of ProPhase Labs, Inc., a Delaware corporation (the "Issuer"). The principal executive office of the Issuer is located at 621 N. Shady Retreat Road, Doylestown, Pennsylvania 18901.

Item 2 Identity and Background

This Schedule 13D is being filed by:

a. Matrixx Initiatives, Inc., a Delaware corporation ("Purchaser");

b. Wonder Holdings Acquisition Corp., a Delaware corporation ("Parent");5\

c. H.I.G. Bayside Debt & LBO Fund II, L.P., a Delaware limited partnership ("Fund II");

d. H.I.G. Bayside Advisors II, LLC, a Delaware limited liability company ("Advisors II");

e. H.I.G.-GPII, Inc., a Delaware corporation ("GP II");

f. Sami W. Mnaymneh; and

g. Anthony A. Tamer.

The entities and persons set forth in clauses (a) through (g) are collectively hereinafter referred to as the "Reporting Persons." The Reporting Persons have entered into a Joint Filing Agreement, dated as of the date hereof, a copy of which is filed with this Schedule 13D as Exhibit 99.1, which is hereby incorporated by reference, pursuant to which the Reporting Persons have agreed to file this statement jointly in accordance with the provisions of Rule 13d-1(k)(1) under the Exchange Act. The Reporting Persons are filing this Schedule 13D because they may be deemed to be a "group" within the meaning of Section 13(d)(3) of the Act with respect to the transaction described in Item 4 of this Schedule 13D. The Reporting Persons expressly disclaim that they have agreed to act as a group except as described herein.

Purchaser is a wholly-owned subsidiary of Parent. Parent is controlled by Fund II. The general partner of Fund II is Advisors II, the manager of Advisors II is GP II, and Messrs. Tamer and Mnaymneh are co-presidents of GP II.

Matrixx Initiatives, Inc.

Purchaser is a corporation incorporated under the laws of the State of Delaware. Its principal business is over-the-counter healthcare products with an emphasis on those that utilize unique or novel delivery systems. The principal office of Purchaser is located at 1 Grand Commons, Suite 130, Bridgewater, New Jersey 08807.

The directors and executive officers of Purchaser are as follows:

Name	Positions with Purchaser	Principal Occupation or Employment (if different)
Marylou Arnett	Chief Executive Officer	
Samir Kamdar	Chief Financial Officer and Chief Operating Officer	
Timothy L. Clarot	Vice President, Research and Development	
Brian D. Schwartz	Secretary, Director	Executive Managing Director of H.I.G. Capital Management, Inc.
Fraser Preston	Assistant Secretary, Director	Principal of H.I.G. Capital Management, Inc.
Brian McMullen	Director	Principal of H.I.G. Capital Management, Inc.

The business address for each director and executive officer is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

Wonder Holdings Acquisition Corp.

Parent is a corporation incorporated under the laws of the State of Delaware. Parent was formed for the specific purpose of the acquisition of Purchaser by Fund II in 2011 and has not engaged in any activities except in connection with those transactions. The principal office of Parent is located at 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

The directors and executive officers of Parent are as follows:

Name	Positions with Parent	Principal Occupation or Employment (if different)
Marylou Arnett	Director	Chief Executive Officer of Matrixx Initiatives, Inc.
Brian D. Schwartz	President, Director	Executive Managing Director of H.I.G. Capital Management, Inc.
Fraser Preston	Secretary, Director	Principal of H.I.G. Capital Management, Inc.
Brian McMullen	Treasurer, Director	Principal of H.I.G. Capital Management, Inc.
Carl Johnson	Director	Retired
David Kronrad	Director	Entrepreneur
Joseph Falsetti	Director	Entrepreneur

The business address for each director and executive officer is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

H.I.G. Bayside Debt & LBO Fund II, L.P.

Fund II is a limited partnership organized under the laws of the State of Delaware. Its principal business is as a private equity investment company. The principal business address of Fund II, which also serves as its principal office, is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

H.I.G. Bayside Advisors II, LLC

Advisors II is a limited liability company organized under the laws of the State of Delaware and is the general partner of Fund II. Its principal business is as a private equity management company. The principal business address of Advisors II, which also serves as its principal office, is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

H.I.G. GP-II, Inc.

GP II is a corporation organized under the laws of Delaware and is the manager of Advisors II. Its principal business is to serve as an investment management company for several affiliates. The principal business address of GP II, which also serves as its principal office, is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

The directors and executive officers of GP II are as follows:

Name	Positions with GP II	Principal Occupation or Employment
Anthony A. Tamer	Co-President, Director	Managing Partner of H.I.G. Capital, LLC
Sami W. Mnaymneh	Co-President, Director	Managing Partner of H.I.G. Capital, LLC
Richard H. Siegel	Vice President and General Counsel	Vice President and General Counsel of H.I.G. Capital, LLC

The business address for each director and executive officer is 1450 Brickell Avenue, 31st Floor, Miami, FL 33131.

Sami W. Mnaymneh and Anthony A. Tamer

Messrs. Mnaymneh and Tamer are the directors and sole shareholders of GP II.

Mr. Mnaymneh is a co-founding partner of H.I.G. Capital, LLC ("H.I.G.") and has served as a Managing Partner of the firm since 1993. Prior to co-founding H.I.G., Mr. Mnaymneh was a Managing Director in the Mergers & Acquisitions department at the Blackstone Group, a New York based merchant bank, where he specialized in providing financial advisory services to Fortune 100 companies.

Mr. Tamer is a co-founding partner of H.I.G. and has served as a Managing Partner of the firm since 1993. Prior to co-founding H.I.G., Mr. Tamer was a partner at Bain & Company. His focus at Bain & Company was on developing business unit and operating strategies, improving clients' competitive positions, implementing productivity improvement and cycle time reduction programs, and leading acquisition and divestiture activities for Fortune 500 clients.

None of the persons for whom information is provided in this Item 2: (1) was convicted in a criminal proceeding during the past five years (excluding traffic violations or similar misdemeanors) or (2) has been a party to any judicial or administrative proceeding during the past five years (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws. Each natural person for whom information is provided in this Item 2 is a U.S. citizen.

Item 3 Source and Amount of Funds or Other Consideration

The aggregate amount of funds used to purchase the Option (as defined below) was $200,000 (the "Option Purchase Price"). The Option Purchase Price was funded with cash on hand of the Purchaser.

Item 4 Purpose of Transaction

Pursuant to the Stock Option Agreement, dated September 4, 2012, by and between Guy J. Quiqley ("Seller") and Purchaser (the "Option Agreement"), Purchaser purchased an option (the "Option") to acquire 1,453,427 Shares owned by Seller (the "Option Shares"), representing approximately 9.8% of the Issuer's outstanding Shares, for an exercise price of $1.40 per Share (as may be adjusted from time to time in accordance with the terms thereof). In addition to the Option, Purchaser acquired an irrevocable proxy with respect to the Option Shares (the "Proxy"). Copies of the Option Agreement and Proxy are set forth as Exhibits 99.2 and 99.3, respectively, hereto, each of which is incorporated by reference herein.

The purpose of the transaction is to acquire an interest in the Option Shares and to demonstrate Purchaser's strong interest in acquiring the Issuer. Purchaser believes that a combination of the Issuer and Purchaser presents an exciting opportunity for their respective employees, business partners and other constituencies while delivering significant value to the Issuer's stockholders at a time when the Issuer is generating significant operating losses. On May 29, 2012, Purchaser sent a letter to the Issuer (the "May Letter") proposing to acquire all of the outstanding Shares at a purchase price of $1.40 per share, in cash and not contingent on the receipt of any third party financing. This offer represented premiums of 35% and 40% over the closing Share price on May 29, 2012, and the 30 day average closing price of the Shares, respectively and a 33% premium to the Shares' average closing price over the preceding 12 months. On June 29, 2012, the Issuer replied to Purchaser stating that the Issuer is not amenable to pursuing a transaction with Purchaser.

Since the May letter, a number of events have transpired that have further convinced Purchaser that such a transaction at this time is in the best interests of the Issuer's stockholders. First, on August 15, 2012, NASDAQ issued a letter notifying the Issuer that it is no longer in compliance with the minimum stockholders' equity requirement for continued listing on the NASDAQ Global Market, which puts the Issuer at risk of potential delisting. Second, the Issuer reported a net loss for the three months ended June 30, 2012 of $1.9 million, or $(0.13) per share, compared to a net loss of $1.0 million, or $(0.06) per share, for the three months ended June 30, 2011. The Issuer has now reported a net loss in the past three quarters, aggregating $4.5 million, and in eight of the twelve quarters since the Issuer's current management assumed its role in June 2009. These developments further illustrate and reinforce the Issuer's tenuous business prospects. On September 6, 2012, Purchaser sent a second letter to the Issuer (the "September 6 Letter") reaffirming its continuing interest in acquiring the Issuer and describing these events. Purchaser did not receive a response to the September 6 Letter, and, on September 14, 2012, Purchaser sent a third letter (the "September 14 Letter") reaffirming its offer and seeking a response from the Issuer. As set forth in the September 14 Letter, Purchaser's proposed transaction would deliver full, fair and compelling value to the Issuer's stockholders and represents a premium of 32.1% over the Issuer's closing stock price on September 6, 2012, the day on which the Seller filed a Schedule 13D announcing the Option Agreement. As of September 6, 2012, it also represented a premium of 32.8% over the 30 day average closing price of the Issuer's stock and a 34.5% premium to the Issuer's average closing price over the 12 months preceding September 6, 2012. A copy of the September 14 Letter is set forth as Exhibit 99.4 hereto and incorporated by reference herein.

Purchaser remains hopeful that the Board of Directors of the Issuer will agree to explore a potential acquisition transaction. In the meantime Purchaser intends to review the desirability of taking various steps that could help it achieve its objective of acquiring 100% of the equity interests of the Issuer, including, without limitation, purchasing or offering to purchase additional Shares and seeking representation on the Board of Directors of the Issuer. It is Purchaser's current expectation that its acquisition of the Issuer would be effected by a merger and would result in a change in the Issuer's board of directors and management, its present capitalization and dividend policy and its organizational documents and would cause the Issuer's common stock to be delisted and eligible for deregistration. Except as set forth herein or such as would occur upon completion of any of the actions discussed above, neither Purchaser nor any of the other Reporting Persons has any present plan or

proposal that would relate or result in any of the matters set forth in Item 4 of this Schedule 13D. Purchaser intends to review its investment in the Issuer on a continuing basis. Depending on various factors including, without limitation, the Issuer's financial position and strategic direction, price levels of the Shares, conditions in the securities market, general economic and industry conditions, the likelihood and desirability of acquiring the entire equity interest of the Issuer and actions taken by the Issuer's Board of Directors, Purchaser and the other Reporting Persons may, in the future, take such actions with respect to their investment in the Issuer as they deem appropriate including, without limitation, exercising the Option or purchasing additional Shares, alone or with others, pursuing discussions with the Issuer, other stockholders and third parties with regard to their investment in the Issuer and/or otherwise changing their intentions with respect to any and all matters referred to in this Item 4.

Item 5 Interest in Securities of the Issuer

(a)—(b) Other than those Shares that may be deemed to be beneficially owned by operation of the Option Agreement and the Proxy, the Reporting Persons do not beneficially own any Shares.

As a result of the Option Agreement and the Proxy, Parent and Purchaser may be deemed to have the power to vote up to 1,453,427 Shares, and thus, each Reporting Person may be deemed to be the beneficial owner of 1,453,427 Shares. All Shares that may be deemed to be beneficially owned by the Reporting Persons constitute approximately 9.8% of the issued and outstanding Shares as of August 13, 2012.

The Reporting Persons (i) are not entitled to any rights as a stockholder of the Issuer as to the Shares covered by the Option Agreement, except as otherwise expressly provided in the Option Agreement and (ii) disclaim all beneficial ownership of such Shares. Except as set forth in this Item 5(a)—(b), none of the Reporting Persons, and, to the knowledge of the Reporting Persons, no director or executive officer of a Reporting Person disclosed in Item 2, beneficially owns any Shares.

(c) Except for the agreements described in this Schedule 13D, to the knowledge of the Reporting Persons, no transactions in the class of securities reported have been effected during the past 60 days by any person named in Item 2 or Item 5(a)—(b).

(d) To the knowledge of the Reporting Persons, no other person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the securities of the Issuer reported herein.

(e) Not applicable.

Item 6 Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Except for the agreements described in this Schedule 13D, to the knowledge of the Reporting Persons, there are no contracts, arrangements, understandings or relationships (legal or otherwise), among the Reporting Persons or, to the knowledge of any of the Reporting Persons, any other person or entity referred to in Item 2, or between such persons and any other person, with respect to any securities of the Issuer, including, but not limited to, transfer or voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding proxies.

Item 7 Material to be Filed as Exhibits.

Exhibit 99.1	Schedule 13D Joint Filing Agreement, dated as of September 14, 2012, by and among each of the Reporting Persons.
Exhibit 99.2	Stock Option Agreement, dated as of September 4, 2012, by and between Matrixx Initiatives, Inc. and Guy J. Quiqley.
Exhibit 99.3	Proxy, dated as of September 4, 2012, from Guy J. Quigley to Matrixx Initiatives, Inc.
Exhibit 99.4	Letter, dated September 14, 2012, from Matrixx Initiatives, Inc. to ProPhase Labs, Inc.
Exhibit 99.5	Powers of Attorney for the Reporting Persons

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: September 14, 2012

MATRIXX INITIATIVES, INC.

By: /s/ Marylou Arnett
Name: Marylou Arnett
Title: Chief Executive Officer

WONDER HOLDINGS ACQUISITION CORP.

By: /s/ Brian D. Schwartz
Name: Brian D. Schwartz
Title: President

H.I.G. BAYSIDE DEBT & LBO FUND II, L.P.

By: H.I.G. Bayside Advisors II, LLC
Its: General Partner

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G. BAYSIDE ADVISORS II, LLC

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G.-GPII, INC.

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

/s/ Sami W. Mnaymneh
Sami W. Mnaymneh

/s/ Anthony A. Tamer
Anthony A. Tamer

EXHIBIT INDEX

Exhibit Number	Exhibit Name
Exhibit 99.1	Schedule 13D Joint Filing Agreement, dated as of September 14, 2012, by and among each of the Reporting Persons.
Exhibit 99.2	Stock Option Agreement, dated as of September 4, 2012, b and between Matrixx Initiatives, Inc. and Guy J. Quiqley.
Exhibit 99.3	Proxy, dated as of September 4, 2012, from Guy J. Quigley to Matrixx Initiatives, Inc.
Exhibit 99.4	Letter, dated September 14, 2012, from Matrixx Initiatives, Inc. to ProPhase Labs, Inc.
Exhibit 99.5	Powers of Attorney for the Reporting Persons

EXHIBIT 99.1

SCHEDULE 13D JOINT FILING AGREEMENT

In accordance with the requirements of Rule 13d-1(k) under the Securities Exchange Act of 1934, as amended, and subject to the limitations set forth therein, the parties set forth below agree to jointly file the Schedule 13D to which this joint filing agreement is attached, and have duly executed this joint filing agreement as of the date set forth below.

Date: September 14, 2012

MATRIXX INITIATIVES, INC.

By: /s/ Marylou Arnett
Name: Marylou Arnett
Title: Chief Executive Officer

WONDER HOLDINGS ACQUISITION CORP.

By: /s/ Brian D. Schwartz
Name: Brian D. Schwartz
Title: President

H.I.G. BAYSIDE DEBT & LBO FUND II, L.P.

By: H.I.G. Bayside Advisors II, LLC
Its: General Partner

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G. BAYSIDE ADVISORS II, LLC

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G.-GPII, INC.

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

/s/ Sami W. Mnaymneh
Sami W. Mnaymneh

/s/ Anthony A. Tamer
Anthony A. Tamer

EXHIBIT 99.2

EXECUTION VERSION

STOCK OPTION AGREEMENT

BY AND BETWEEN

GUY J. QUIGLEY

AND

MATRIXX INITIATIVES, INC.

DATED AS OF SEPTEMBER 4, 2012

STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (this "Agreement") dated as of September 4, 2012, between Guy J. Quigley ("Seller") and Matrixx Initiatives, Inc., a Delaware corporation ("Purchaser").

RECITALS

Seller is the record and beneficial owner of 2,581,559 of the issued and outstanding shares of common stock, par value $0.0005 per share ("Common Stock"), of ProPhase Labs, Inc., a Nevada corporation (the "Company"), representing approximately 17.4% of the Company's outstanding Common Stock.

Seller desires to sell, and Purchaser desires to purchase, an option (the "Option") to acquire 1,453,427 shares of Common Stock (the "Option Shares") owned by Seller, representing approximately 9.8% of the Company's outstanding Common Stock, for an exercise price of $1.40 per share of Common Stock (as may be adjusted from time to time in accordance with Section 4.5, the "Exercise Price"), pursuant to the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

PURCHASE AND SALE OF OPTION; CLOSING; DELIVERIES

1.1 Subject to the terms and conditions of this Agreement, at the Closing, Seller shall sell to Purchaser, and Purchaser shall purchase, the Option, free and clear of all Encumbrances.

1.2 The aggregate purchase price to be paid for the Option at the Closing shall be an amount equal to $200,000.00 (the "Option Purchase Price"). For avoidance of doubt, the Option Purchase Price will be nonrefundable.

1.3 Subject to the conditions set forth herein, the consummation of the transactions that are the subject of this Agreement (the "Closing") shall occur at the offices of Kirkland & Ellis LLP, 300 North LaSalle Street, Chicago, Illinois 60654 or such other place as Purchaser and Seller may mutually agree upon in writing, at 10:00 a.m., Chicago time, on the date hereof and the Closing shall be deemed effective as of the open of business on the date hereof.

1.4 At the Closing, (a) Purchaser shall deliver to Seller the Option Purchase Price by wire transfer of immediately available funds, (b) Seller shall automatically, without any further action, entitle Purchaser to purchase 1,453,427 shares of Common Stock from Seller for the Exercise Price in accordance with the procedures set forth in Article IV hereof and (c) Seller shall deliver to Purchaser an irrevocable proxy, substantially in the form attached hereto as Exhibit A (the "Proxy").

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLER

As an inducement to Purchaser to enter into this Agreement and to consummate the transactions contemplated herein, Seller hereby represents and warrants to Purchaser as follows:

2.1 Authority. Seller has the right, power, authority and capacity to execute and deliver this Agreement and any other documents entered into in connection herewith, to consummate the transactions contemplated hereby and to perform his obligations under this Agreement. This Agreement constitutes the legal, valid and binding obligations of Seller, enforceable against Seller in accordance with the terms hereof.

2.2 Ownership. Seller is the sole record and beneficial owner of the Option Shares, has good and marketable title to, and sole record and beneficial ownership of, the Option Shares, free and clear of all Encumbrances, other than applicable restrictions under applicable Laws, and has full legal right and power to sell the Option and, upon exercise of the Option, sell, transfer and deliver the Option Shares to Purchaser in accordance with this Agreement. Upon consummation of the Closing, Purchaser will acquire from Seller the Option and, upon exercise of the Option, Purchaser will acquire from Seller legal and beneficial ownership of, and good and valid title to, the Option Shares, in each case free and clear of any Encumbrances (other than Encumbrances as may be imposed by Purchaser or applicable restrictions under applicable Laws, including restrictions on transfer under the Securities Act and any applicable state securities Laws), including Encumbrances of spouses, former spouses or other family members or beneficiaries of Seller. Seller has not assigned any rights related to the Option or the Option Shares. Other than this Agreement and the Proxy, there are no stockholders' agreements, voting trusts, proxies, options, rights of first refusal or any other agreements or understandings with respect to the voting or disposition of the Option Shares.

2.3 Valid Issuance. The Option Shares are duly authorized, validly issued, fully paid and non-assessable, were issued in compliance with the Securities Act and any applicable state securities Laws and were not issued in violation of any preemptive or similar rights.

2.4 No Conflict; Litigation. The execution, delivery, or performance of this Agreement and the consummation of the transactions contemplated hereby, do not conflict with, nor will they conflict with, or (with or without notice or lapse of time, or both) result in a termination, breach or violation of, or any augmentation or acceleration of rights, benefits or obligations of any party under (i) any instrument, contract or agreement to which Seller is a party or by which he is bound, or to which the Option or the Option Shares are subject or (ii) any Law. Assuming the accuracy of Purchaser's representations and warranties in Article III hereof, the transactions contemplated by this Agreement will be exempted from the Securities Act. Seller is not now involved in nor, to the knowledge of Seller, is threatened to be involved in, any litigation or any other litigation or legal or other proceedings related to or affecting the Option or the Option Shares or which would prevent or hinder the consummation of the transactions contemplated by this Agreement.

2.5 No Consent. No consent, approval, authorization or order of, or any filing or declaration with any Governmental Authority or any other person is required for the consummation by Seller of any of the transactions on Seller's part contemplated under this Agreement, other than a Schedule 13D amendment and a Form 4 to be filed by Seller.

2.6 No General Solicitation or Advertising. Neither Seller nor any of his affiliates nor any person acting on his or their behalf (i) has conducted or will conduct any general solicitation (as that term is used in Rule 502(c) of Regulation D of the Securities Act) or general advertising with respect to the Option or, upon exercise of the Option, the Option Shares, or (ii) made any offers or sales of any security or solicited any offers to buy any security under any circumstances that would require registration of the Option Shares under the Securities Act or any applicable state securities Laws.

2.7 No Broker. No broker or intermediary has been retained by Seller or otherwise shall be entitled to compensation from the transactions contemplated by this Agreement.

2.8 Familiarity with the Company. Seller is fully familiar with the financial condition and prospects of the Company. Seller acknowledges that he is voluntarily transferring the right to purchase the Option Shares to Purchaser (*i.e.*, the Option) and that the Option Purchase Price and the Exercise Price are fair consideration. Seller further represents that in negotiating for and in arriving at the amount of consideration for the Option and, upon exercise of the Option, the Option Shares, Seller has recognized the possibility that at any time after the date hereof, the business and financial position of the Company may substantially improve, which would be to the added or further benefit of the Company, its shareholders and Purchaser (as holder of the Option and, upon exercise of the Option, the Option Shares).

2.9 Purchaser Information. Seller acknowledges and understands that: (a) Purchaser currently may have, and later may come into possession of, information with respect to the Company and its Common Stock (including the Option Shares) that is not known to the Seller and may be material to a decision to exercise the Option and/or sell the Option Shares (the "Purchaser Excluded Information") including, but not limited to, (A) material, nonpublic information regarding the Company, its financial condition, results of operations, businesses, properties, assets, liabilities, management, projections, appraisals, plans and prospects, including potential sales of the Company, any of its subsidiaries or any of their respective assets and potential financings of the Company and its subsidiaries which could result in distributions to the Company's shareholders, and the fair market value of the Option and the Option Shares, (B) information regarding the Company and the Company's industry possessed by the Purchaser as a result of its operations but not widely possessed by the public, and (C) information about the Purchaser's strategic plans related to the Company, including but not limited to plans to:

(i) seek to acquire control of the Company through a merger, proxy solicitation, tender offer, exchange offer or otherwise, including for consideration in excess of the per share value of the Exercise Price;

(ii) make recommendations to the Board of Directors of the Company and management of the Company concerning various business strategies, mergers, acquisitions, dispositions, dividend policy, capital structure or charter or bylaw changes or other matters;

(iii) restructure or effect other significant transactions with respect to the Company;

(iv) participate in a going-private transaction;

(v) take any other actions that could have the purpose or effect of directly or indirectly changing or influencing control of the Company; or

(vi) provide financing for any of the foregoing;

(b) the Seller has determined to sell the right to purchase the Option Shares to Purchaser (*i.e.*, the Option), notwithstanding its lack of knowledge of the Purchaser Excluded Information; and (c) the Purchaser shall have no liability to the Seller in any way related to the Purchaser Excluded Information, and the Seller waives and releases any claims that it might have against the Purchaser in any way related to the Purchaser Excluded Information, whether under applicable securities Laws or otherwise; provided, however, that the Purchaser Excluded Information shall not affect the truth or accuracy of the Purchaser's representations or warranties in this Agreement.

2.10 Full Disclosure. No representation or warranty of Seller to Purchaser in this Agreement omits to state a material fact necessary to make the statements herein, in light of the circumstances in which they were made, not misleading. There is no fact known to Seller that has specific application to the Company or its Common Stock (including the Option Shares) that materially adversely affects or materially threatens the Company or its Common Stock (including the Option Shares) that has not been set forth in this Agreement or in the Company's public filings with the Securities and Exchange Commission.

2.11 No Other Agreements. Other than this Agreement and the Proxy, Seller and Purchaser do not have any agreement, arrangement or understanding with respect to the acquisition, holding, voting or disposition of any securities of the Company.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Seller to enter into this Agreement and to consummate the transactions contemplated herein, Purchaser represents and warrants to Seller as follows:

3.1 Authority. Purchaser has the right, power, authority and capacity to execute and deliver this Agreement and any other documents entered into in connection herewith, to consummate the transactions contemplated hereby and to perform its obligations under this Agreement. This Agreement constitutes the legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with the terms hereof.

3.2 No Conflict. None of the execution, delivery, or performance of this Agreement, and the consummation of the transactions contemplated hereby, conflicts or will conflict with, or (with or without notice or lapse of time, or both) result in a termination, breach or violation of, or any augmentation or acceleration of rights, benefits or obligations of any party under (i) any instrument, contract or agreement to which Purchaser is a party or by which it is bound or (ii) any Law.

3.3 No Consent. No consent, approval, authorization or order of, or any filing or declaration with any Governmental Authority or any other person is required for the consummation by Purchaser of any of the transactions on its part contemplated under this Agreement, other than a Form 3 and Schedule 13D by Purchaser.

3.4 Accredited Investor; Investment Experience. Purchaser is and, upon exercise of the Option, will be an "accredited investor," as such term is defined in Regulation D of the Securities Act, is experienced in investments and business matters, has made investments of a speculative nature and, with its representatives, has such knowledge and experience in financial, tax and other business matters as to enable it to utilize the information made available by Seller and the Company to evaluate the merits and risks of and to make an informed investment decision with respect to this Agreement, which, upon exercise of the Option, will represent a speculative investment. Purchaser is able to bear the risk of such investment for an indefinite period and to afford a complete loss thereof. Purchaser is and, upon exercise of the Option, will be an accredited investor, as defined in Rule 501 of the Securities Act.

3.5 Investment Purposes. Purchaser is acquiring the Option and, upon exercise of the Option, will be acquiring the Option Shares for its own account as principal, not as a nominee or agent, for investment purposes only, and not with a view to, or for, resale, distribution or fractionalization thereof in whole or in part, nor with the intention of selling, transferring or otherwise disposing of all or any part of the Option or, upon exercise of the Option, the Option Shares except in compliance with all applicable provisions of the Securities Act and any applicable state securities Laws.

3.6 No Broker. No broker or intermediary has been retained by Purchaser or otherwise shall be entitled to compensation from the transactions contemplated by this Agreement.

3.7 Familiarity with the Company. Purchaser is fully familiar with the financial condition and prospects of the Company. Purchaser acknowledges that it is voluntarily purchasing the Option and, upon exercise of the Option, will be purchasing the Option Shares from Seller and that the Option Purchase Price and the Exercise Price are fair consideration. Purchaser further represents that in negotiating for and in arriving at the amount of consideration for the Option and the Option Shares, Purchaser has recognized the possibility that at any time after the date hereof, the business and financial position of the Company may substantially deteriorate, which would be to the detriment of the Company, its shareholders and Purchaser (as holder of the Option and, upon exercise of the Option, the Option Shares).

3.8 No Other Agreements. Other than this Agreement and the Proxy, Seller and Purchaser do not have any agreement, arrangement or understanding with respect to the acquisition, holding, voting or disposition of any securities of the Company.

ARTICLE IV

OPTION TERMS

4.1 Terms. The Option shall be exercisable for the purchase of the Option Shares at the Exercise Price, payable upon exercise as set forth in this Article IV. The Option shall expire on the earliest to occur of (i) Purchaser's failure to deliver an Option Notice within thirty (30) calendar days after the date hereof, (ii) Purchaser's failure to pay the Option Price (which may be in the form of a Note) at the Option Closing and (iii) the date that is three (3) years from the date hereof (the "Expiration Date").

4.2 Payment of Option Price. The Option shall be exercised in whole, but not in part, upon payment to Seller of an amount equal to $2,034,797.80 (the "Option Price"), which amount is equal to the product of (i) the Exercise Price, multiplied by (ii) the number of Option Shares.

4.3 Procedure for Exercise. Purchaser may exercise the Option at any time prior to the Expiration Date, by delivering written notice to Seller (the "Option Notice"); provided that if Purchaser has not delivered an Option Notice within thirty (30) calendar days after the date hereof the Option will be deemed to have expired in accordance with Section 4.1(i). The Option Notice shall set forth the time and place for the closing (an "Option Closing"), which date shall be no less than two (2) business days and no more than thirty (30) calendar days following the date of the Option Notice.

4.4 Closing of Purchase of Option Shares. At the Option Closing, Purchaser shall pay the Option Price (a) in cash by wire transfer of immediately available funds or (b) by delivering to Seller a note in the form of Exhibit B attached hereto (a "Note"). Promptly (but in any event within one (1) business day) following receipt of the Option Price, for a period of thirty (30) calendar days following the Option Closing, Seller shall make reasonable efforts to cause the transfer agent of the Company to issue a new certificate or certificates in Purchaser's name representing the Option Shares (the "Exercise Share Issuance"). So long as Seller makes reasonable efforts to cause the Exercise Share Issuance to occur, the failure by Seller to cause the Exercise Share Issuance to occur solely as a result of any action or inaction on the part of the transfer agent or the Company shall not be deemed to be a violation of Seller's obligations under this Agreement (a "Bona Fide Failed Exercise Share Issuance"). In no event will Purchaser be deemed to have exercised the Option or Seller be deemed to have validly delivered the Option Shares if the transfer agent does not issue a stock certificate in the name of Purchaser representing the Option Shares. For purposes of clarity, on the day immediately following the Expiration Date, in the event that a Bona Fide Failed Exercise Share Issuance occurs, Seller's obligation to cause the Exercise Share Issuance shall automatically terminate, the Option shall not be deemed to have been exercised and the Option shall automatically terminate. Purchaser shall be entitled to receive customary representations and warranties from Seller regarding the sale of the Option Shares (including representations and warranties regarding good title to the Option Shares, free and clear of any Encumbrances). If the Exercise Share Issuance occurs and Purchaser fails to pay the Obligations in full on or before the Maturity Date (as each term is defined in the Note), Purchaser will take reasonable efforts to cause the certificate or certificates to be re-issued in the name of Seller.

4.5 Adjustments; Distributions. In the event of a reorganization, recapitalization, stock dividend or stock split or combination or other change in the shares of Common Stock, the number of Option Shares and the Exercise Price will be automatically adjusted in order to prevent the dilution or enlargement of rights under the Option. For the avoidance of doubt, the number of Option Shares shall be approximately 9.8% of the Common Stock outstanding as reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. If at any time the Company makes a dividend or other distribution (a "Distribution") to all its stockholders of any asset, including cash or security (the total of the assets or securities so distributed, the "Distribution Amount"), then, upon exercise of the Option, Purchaser shall have the right to receive from Seller, in addition to the Option Shares, whatever assets were distributed on behalf of the Option Shares. Upon a Sale of the Company, Purchaser shall have the right to receive, upon the basis and upon the terms and conditions specified herein and in lieu of the Option Shares immediately theretofore exercisable and receivable upon the exercise of the Option, such assets, including cash or securities, that would have been received upon such Sale of the Company by Purchaser with respect to the Option Shares immediately prior to such event.

ARTICLE V

ADDITIONAL COVENANTS AND ACKNOWLEDGEMENTS

5.1 Transfer of Option Shares. Prior to the Expiration Date, without Purchaser's prior written consent, Seller covenants and agrees to directly own a number of shares of Common Stock equal to the Option Shares.

5.2 Restricted Securities. Purchaser understands that, as of the date hereof, (a) the Option Shares have not been registered under the Securities Act or any applicable state securities Laws, (b) the Option Shares are "restricted securities" as defined in Rule 144 of the Rules and Regulations promulgated under the Securities Act ("Rule 144") and (c) Rule 144 permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the satisfaction of all the requirements under Rule 144(i)(2), the availability of certain current public information about the Company, the resale occurring not less than six months after a party has purchased and paid for the security to be sold, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three (3) month period not exceeding specified limitations.

5.3 Legend. Purchaser understands and agrees that the certificate(s) representing the Option Shares may bear one or more restrictive legends determined by counsel to the Company to be necessary or appropriate in order to comply with the Securities Act and any applicable state securities Laws or to secure or protect any applicable exemptions from registration or qualification, including a legend in substantially the following form and the Purchaser agrees to abide by the terms thereof:

"The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred or assigned in the absence of an effective registration statement for those shares under the Securities Act of 1933 or an opinion of the Company's counsel that registration is not required under said Act."

Purchaser also understands and agrees that the certificate(s) representing the Option Shares may bear one or more legends determined by counsel to the Company to be necessary or appropriate relating to that certain Rights Agreement, dated as of September 15, 1998, as subsequently amended, between the Company and American Stock Transfer & Trust Company, LLC.

5.4 Section 13(d)(3) Disclaimer. Each of Purchaser and Seller agrees that nothing in this Agreement or the Proxy is intended to deem Purchaser and Seller to be members of a "group" within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended. Purchaser and Seller expressly disclaim that they have agreed to act as a group in any way and each of Purchaser and Seller agrees not to take any action that would cause Purchaser and Seller to be deemed a group. Without limiting the generality of the foregoing, Purchaser shall have no right to take any action with respect to any shares of Common Stock owned by Seller other than the Option Shares, and then only as provided in the Proxy.

ARTICLE VI

DEFINITIONS

6.1 Defined Terms. As used in this Agreement, the following definitions shall apply.

(a) "Encumbrances" means any liens, pledges, taxes, hypothecations, charges, adverse claims, options, warrants, rights, contracts, calls, commitments, demands, preferential arrangements or restrictions of any kind, including, without limitation, any restriction of the use, voting, transfer, receipt of income or other exercise of any attributes of ownership.

(b) "Governmental Authority" means any governmental or regulatory body, agency, authority, commission, department, bureau, court, tribunal, council, instrumentality, arbitrator or arbitral or judicial body (public or private), or political subdivision, whether federal, state, local, tribal or foreign.

(c) "Law" means any federal, state, local or foreign law (including common law), treaty, statute, code, ordinance, rule, regulation, permit, license, written order or other requirement or guideline of any Governmental Authority, including any order and any rules or regulations related to the NASDAQ Stock Market.

(d) "Losses" means losses, liabilities, damages, costs and expenses (including, without limitation, attorneys fees) other than consequential, incidental or indirect damages, lost profits or punitive damages.

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

6.2 Terms Generally. The definitions in Section 6.1 and elsewhere in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The words "herein," "hereof" and "hereunder" and words of similar import refer to this Agreement (including the Exhibits to this Agreement) in its entirety and not to any part hereof unless the context shall otherwise require. All references herein to Articles, Sections and Exhibits shall be deemed references to Articles and Sections of, and Exhibits to, this Agreement unless the context shall otherwise require. Unless the context shall otherwise require, any references to any agreement or other instrument or any Law are to such agreement, instrument or Law as the same may be amended and supplemented from time to time (and, in the case of any statute or regulation, to any successor provisions). Any reference to any Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The use of the words "or," "either" and "any" in this Agreement shall not be exclusive. If any action is to be taken or given on or by a particular calendar day, and such calendar day is not a business day, then such action may be deferred until the next business day.

ARTICLE VII

MISCELLANEOUS

7.1 Indemnification. Within five (5) business days following receipt of documentation reasonably satisfactory to Purchaser, Purchaser shall reimburse Seller up to $50,000.00 in the aggregate for all Losses incurred or suffered by Seller arising from or relating to this Agreement or Seller's association with Purchaser by virtue of this Agreement and the transactions contemplated hereunder, including (i) any action against Seller to prevent the exercise of the Option or the Exercise Share Issuance and (ii) any Losses incurred by Seller to cause the Company or its transfer agent to permit the exercise of the Option or the Exercise Share Issuance.

7.2 Further Assurances. From time to time, whether at or following the Closing, each party shall make reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable, including as required by applicable Laws, to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement.

7.3 Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed duly given (a) if by personal delivery, when so delivered, (b) if mailed, three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid and addressed to the intended recipient as set forth below, or (c) if sent through an overnight delivery service in circumstances to which such service guarantees next day delivery, the day following being so sent to the addresses of the parties as indicated on the signature page hereto. Any party may change the address to which notices and other communications hereunder are to be delivered by giving the other parties notice in the manner herein set forth.

7.4 Governing Law. All questions concerning the construction, validity and interpretation of this Agreement shall be governed by and construed in accordance with the domestic Laws of the State of Delaware, without giving effect to any choice of Law or conflict of Law provision (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware.

7.5 WAIVER OF JURY TRIAL. AS A SPECIFICALLY BARGAINED INDUCEMENT FOR EACH OF THE PARTIES TO ENTER INTO THIS AGREEMENT (EACH PARTY HAVING HAD OPPORTUNITY TO CONSULT COUNSEL), EACH PARTY EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN.

7.6 CONSENT TO JURISDICTION. THE PARTIES AGREE THAT JURISDICTION AND VENUE IN ANY ACTION BROUGHT BY ANY PARTY PURSUANT TO THIS AGREEMENT SHALL EXCLUSIVELY LIE IN ANY FEDERAL OR STATE COURT LOCATED IN NEW CASTLE COUNTY, DELAWARE. BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY IRREVOCABLY SUBMITS TO THE JURISDICTION OF SUCH COURTS FOR HIMSELF AND IN RESPECT OF HIS PROPERTY WITH RESPECT TO SUCH ACTION. THE PARTIES IRREVOCABLY AGREE THAT VENUE WOULD BE PROPER IN SUCH COURT, AND HEREBY WAIVE ANY OBJECTION THAT SUCH COURT IS AN IMPROPER OR INCONVENIENT FORUM FOR THE RESOLUTION OF SUCH ACTION. THE PARTIES FURTHER AGREE THAT THE MAILING BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, OF ANY PROCESS REQUIRED BY ANY SUCH COURT SHALL CONSTITUTE VALID AND LAWFUL SERVICE OF PROCESS AGAINST THEM, WITHOUT NECESSITY FOR SERVICE BY ANY OTHER MEANS PROVIDED BY STATUTE OR RULE OF COURT.

7.7 Entire Agreement. This Agreement (including the Exhibits hereto), together with the other agreements, certificates and other instruments delivered hereunder and thereunder, sets forth the entire agreement and understanding of the parties in respect of the transactions contemplated hereby and supersedes all prior and contemporaneous agreements, arrangements and understandings of the parties relating to the subject matter hereof. No representation, promise, inducement, waiver of rights, agreement or statement of intention has been made by any of the parties which is not expressly embodied in this Agreement.

7.8 Captions. The captions used in this Agreement are for convenience of reference only and do not constitute a part of this Agreement and shall not be deemed to limit, characterize or in any way affect any provision of this Agreement, and all provisions of this Agreement shall be enforced and construed as if no caption had been used in this Agreement.

7.9 Assignment; Binding Nature; No Beneficiaries. This Agreement may not be assigned by any party hereto without the written consent of the other party hereto; provided, however, that Purchaser may assign its rights hereunder to any affiliate of the Purchaser that assumes the obligations of Purchaser hereunder. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective heirs, personal representatives, legatees, successors and permitted assigns. This Agreement shall not confer any rights or remedies upon any person other than the parties hereto and their respective heirs, personal representatives, legatees, successors and permitted assigns.

7.10 Amendments. This Agreement may be amended, modified, superseded or cancelled, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the parties hereto.

7.11 Waivers. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by any party of any condition, or the breach of any term, covenant, representation or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or a waiver of any other term, covenant, representation or warranty of this Agreement.

7.12 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument. This Agreement and any signed agreement or instrument entered into in connection with this Agreement, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or PDF email, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, the other party hereto or thereto shall re-execute original forms thereof and deliver them to the other party. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or PDF email to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or PDF email as a defense to the formation of a contract and each such party forever waives any such defense.

7.13 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable Law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement. Upon such determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

7.14 Interpretation. The parties agree that this Agreement shall be deemed to have been jointly and equally drafted by them, and that the provisions of this Agreement therefore shall not be construed against a party or parties on the ground that such party or parties drafted or was more responsible for the drafting of any such provision(s). The parties further agree that they have each carefully read the terms and conditions of this Agreement, that they know and understand the contents and effect of this Agreement and that the legal effect of this Agreement has been fully explained to its satisfaction by counsel of its own choosing.

7.15 Transaction Costs. Except as specifically set forth in this Agreement, each party hereto shall pay his or its own expenses incident to this Agreement and in performing his or its obligations hereunder.

*****

IN WITNESS WHEREOF, the parties have executed this Stock Option Agreement as of the date first written above.

SELLER

/s/ Guy J. Quigley
GUY J. QUIGLEY

3720 Fountain Circle
Fountainville, Pennsylvania 18923

PURCHASER

MATRIXX INITIATIVES, INC.

By: /s/ Marylou Arnett
Name: Marylou Arnett
Its: Chief Executive Officer

1 Grande Commons, Suite 130
440 Route 22 East
Bridgewater, NJ 08807

EXHIBIT A

IRREVOCABLE PROXY

(Common Stock of ProPhase Labs, Inc.)

For good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes Matrixx Initiatives, Inc., a Delaware corporation (the "Proxy Holder"), the attorney and proxy of the undersigned with full power of substitution and resubstitution, to the full extent of the undersigned's rights with respect to the shares of common stock, par value $0.0005 per share (the "Common Stock") of ProPhase Labs, Inc. (the "Company") that are "Option Shares", as defined in, and pursuant to, that certain Stock Option Agreement, by and between the undersigned and the Proxy Holder, dated as of the date hereof (the "Stock Option Agreement"). Upon the execution hereof, all prior proxies given by the undersigned with respect to any Common Stock of the Company are hereby revoked, and no subsequent proxies will be given with respect to any of the Option Shares.

This proxy is IRREVOCABLE, is COUPLED WITH AN INTEREST and is granted pursuant to the Stock Option Agreement, and is for the benefit of the Proxy Holder in consideration of the Option Purchase Price (as defined in the Stock Option Agreement) paid by the Proxy Holder to the undersigned pursuant thereto. Capitalized terms used herein but not otherwise defined in this irrevocable proxy have the meanings ascribed to such terms in the Stock Option Agreement.

The Proxy Holder will be empowered and may exercise this irrevocable proxy if the Proxy Holder gives notice of its intent to exercise such rights to the undersigned, to take any of the following actions: (i) exercise all voting and other rights pertaining to the Option Shares, whether at any meeting of stockholders of the Company, action by written consent or otherwise and (ii) exercise any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to the Option Shares as if it were the absolute owner thereof (including the right to exchange at its discretion any and all of the Option Shares upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other structure of the Company, or upon the exercise by the Proxy Holder of any right, privilege or option pertaining to the Option Shares, and in connection therewith, the right to deposit and deliver any and all of the Option Shares with any committee, depositary, transfer agent, registrar or other designated agency upon such terms and conditions as the Proxy Holder may determine).

This proxy is granted in accordance with the laws of the State of Delaware and, to the extent permitted by law, this proxy shall continue in full force and effect until the earlier of (i) the date that the Proxy Holder exercises the Option in full and (ii) the Expiration Date.

In the event that any provision of this proxy becomes or is declared by a court of competent jurisdiction to be illegal, invalid, unenforceable or void, this proxy shall continue in full force and effect without said provision to the extent the intent of the undersigned and the Proxy Holder is effected. In such event, the undersigned shall, to the extent requested by the Proxy Holder, enter into such legal, valid and enforceable substitute provision as most nearly effects the intent of such parties in entering into this proxy.

Any obligation of the undersigned hereunder shall be binding upon the heirs, successors and assigns of the undersigned (including any transferee of any of the Option Shares).

IN WITNESS WHEREOF, the undersigned has executed this irrevocable proxy as of this 4th day of September, 2012.

GUY J. QUIGLEY

3720 Fountain Circle
Fountainville, Pennsylvania 18923

EXHIBIT B

THE SECURITY REPRESENTED BY THIS INSTRUMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THE PAYMENT OF THE OBLIGATIONS ON THIS NOTE IS SUBJECT TO CERTAIN SUBORDINATION PROVISIONS SET FORTH IN SECTION 5 HEREOF.

SUBORDINATED PROMISSORY NOTE

$2,034,797.80 **[DATE]**

FOR VALUE RECEIVED, Matrixx Initiatives, Inc., a Delaware corporation (the "Issuer"), hereby promises to pay to the order of Guy J. Quigley (the "Payee"), on the Maturity Date (as defined below), the principal sum of TWO MILLION THIRTY-FOUR THOUSAND SEVEN HUNDRED NINETY-SEVEN DOLLARS AND 80/100 ($2,034,797.80) in lawful money of the United States of America. Defined terms used but not otherwise defined herein shall have the meaning ascribed to such terms in the Stock Option Agreement, dated as of September [ ], 2012, by and between the Issuer and the Payee (as amended, restated or otherwise modified from time to time, the "Option Agreement").

This Subordinated Promissory Note (this "Note") is subject to the following further terms and conditions:

1. Interest. Interest shall accrue on a daily basis on the outstanding principal amount of this Note, plus accrued but unpaid interest (compounded annually), at a rate per annum equal to [•]% (the mid term applicable federal rate for [•][1]). Interest shall be payable at such time as the principal amount of this Note becomes due and payable, such interest to be paid in cash in the manner specified in Section 3 hereof. Interest shall be computed on the basis of a 365-day year and the actual number of days elapsed. Any accrued interest which for any reason has not theretofore been paid shall be paid in full on the Maturity Date.

2. Maturity Date. This Note shall mature (the "Maturity Date") on the date that is five (5) business days after the date that the Issuer receives evidence (reasonably satisfactory to the Issuer) from the Payee that the Exercise Share Issuance has occurred in accordance with Section 4.4 of the Option Agreement (the "Maturity Trigger"). Notwithstanding anything to the contrary herein, no payment hereunder (*i.e.*, principal or interest) shall be due and this Note shall be automatically cancelled without any payment to the Payee (including, without limitation, Sections 3 and 4 hereof) if the Maturity Trigger has not occurred within thirty (30) days after the date hereof.

3. Payment; Prepayment. All payments and prepayments on this Note shall be made to the Payee or its order, in lawful money of the United States of America by wire transfer of immediately available funds to the account designated by Payee. The Issuer may, at the Issuer's option, prepay this Note in whole or in part at any time or from time to time without penalty or premium.

[1] To be the month and year this Note is delivered.

4. Security; Pledge. The Issuer hereby pledges to the Payee, and grants to the Payee a security interest in, the Option Shares as security for the prompt and complete payment on the Maturity Date of the unpaid amounts payable by the Issuer under or in respect of this Note (the "Obligations"). For the avoidance of doubt, the Payee shall hold all certificates representing the Option Shares until the Issuer has paid the Obligations in full. Upon payment in full of the Obligations, the Payee shall surrender the Option Shares to the Issuer.

5. [Subordination. Notwithstanding anything to the contrary herein, the Payee covenants and agrees that, except as set forth in Section 4 with respect to the security interest granted in the Option Shares, the Obligations shall be subordinate and junior and subject in right of payment to the prior payment in full in cash of all other indebtedness of the Issuer and its subsidiaries.][2]

6. Miscellaneous.

   (a) All questions concerning the construction, validity and interpretation of this Note shall be governed by and construed in accordance with the domestic Laws of the State of Delaware, without giving effect to any choice of Law or conflict of Law provision (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware.

   (b) AS A SPECIFICALLY BARGAINED INDUCEMENT FOR THE ISSUER TO ISSUE THIS NOTE AND FOR THE PAYEE TO ACCEPT THIS NOTE (EACH PARTY HAVING HAD OPPORTUNITY TO CONSULT COUNSEL), EACH PARTY EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS NOTE.

   (c) THE PARTIES AGREE THAT JURISDICTION AND VENUE IN ANY ACTION BROUGHT BY ANY PARTY PURSUANT TO THIS NOTE SHALL EXCLUSIVELY LIE IN ANY FEDERAL OR STATE COURT LOCATED IN NEW CASTLE COUNTY, DELAWARE. BY EXECUTION AND DELIVERY OF THIS NOTE, EACH PARTY IRREVOCABLY SUBMITS TO THE JURISDICTION OF SUCH COURTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY WITH RESPECT TO SUCH ACTION. THE PARTIES IRREVOCABLY AGREE THAT VENUE WOULD BE PROPER IN SUCH COURT, AND HEREBY WAIVE ANY OBJECTION THAT SUCH COURT IS AN IMPROPER OR INCONVENIENT FORUM FOR THE RESOLUTION OF

[2] Final subordination language subject to review and approval by lenders.

SUCH ACTION. THE PARTIES FURTHER AGREE THAT THE MAILING BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, OF ANY PROCESS REQUIRED BY ANY SUCH COURT SHALL CONSTITUTE VALID AND LAWFUL SERVICE OF PROCESS AGAINST THEM, WITHOUT NECESSITY FOR SERVICE BY ANY OTHER MEANS PROVIDED BY STATUTE OR RULE OF COURT.

(d) In the event of litigation regarding the subject matter of this Note, the prevailing party in a final, non-appealable order of a court of competent jurisdiction shall be entitled to recover its reasonable, documented expenses and attorneys' fees in connection with obtaining such order.

(e) The captions used in this Note are for convenience of reference only and do not constitute a part of this Note and shall not be deemed to limit, characterize or in any way affect any provision of this Note, and all provisions of this Note shall be enforced and construed as if no caption had been used in this Note.

(f) This Note may not be assigned by any party hereto without the written consent of the other party hereto;provided, however, that the Issuer may assign its rights hereunder to any affiliate of the Issuer that assumes the obligations of the Issuer hereunder. Subject to the preceding sentence, this Note shall be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective heirs, personal representatives, legatees, successors and permitted assigns. This Note shall not confer any rights or remedies upon any person other than the parties hereto and their respective heirs, personal representatives, legatees, successors and permitted assigns.

(g) This Note may be amended, modified, superseded or cancelled only by a written instrument executed by the parties hereto.

(h) The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by any party of the breach of any term or covenant contained in this Note, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such breach or a waiver of any other term or covenant of this Note.

(i) The headings contained in this Note are for reference purposes only and shall not affect in any way the meaning or interpretation of the provisions hereof.

(j) This Note may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument. This Note and any signed agreement or instrument entered into in connection with this Note, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or PDF email, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original

signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, the other party hereto or thereto shall re-execute original forms thereof and deliver them to the other party. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or PDF email to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or PDF email as a defense to the formation of a contract and each such party forever waives any such defense.

(k) Whenever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision of this Note is held to be prohibited by or invalid under applicable Law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Note. Upon such determination, the parties shall negotiate in good faith to modify this Note so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

(l) The provisions of this Note may be amended or waived only upon the prior written consent of the Issuer and the Payee.

(m) The parties agree that this Note shall be deemed to have been jointly and equally drafted by them, and that the provisions of this Note therefore shall not be construed against a party or parties on the ground that such party or parties drafted or was more responsible for the drafting of any such provision(s). The parties further agree that they have each carefully read the terms and conditions of this Note, that they know and understand the contents and effect of this Note and that the legal effect of this Note has been fully explained to its satisfaction by counsel of its own choosing.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Note has been duly executed and delivered by the Issuer on the date first above written.

ISSUER

MATRIXX INITIATIVES, INC.

By: _____
Name: Marylou Arnett
Its: Chief Executive Officer

ACKNOWLEDGED AND AGREED:

PAYEE

_____
GUY J. QUIGLEY
3720 Fountain Circle
Fountainville, Pennsylvania 18923

IRREVOCABLE PROXY

(Common Stock of ProPhase Labs, Inc.)

For good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes Matrixx Initiatives, Inc., a Delaware corporation (the "Proxy Holder"), the attorney and proxy of the undersigned with full power of substitution and resubstitution, to the full extent of the undersigned's rights with respect to the shares of common stock, par value $0.0005 per share (the "Common Stock") of ProPhase Labs, Inc. (the "Company") that are "Option Shares", as defined in, and pursuant to, that certain Stock Option Agreement, by and between the undersigned and the Proxy Holder, dated as of the date hereof (the "Stock Option Agreement"). Upon the execution hereof, all prior proxies given by the undersigned with respect to any Common Stock of the Company are hereby revoked, and no subsequent proxies will be given with respect to any of the Option Shares.

This proxy is IRREVOCABLE, is COUPLED WITH AN INTEREST and is granted pursuant to the Stock Option Agreement, and is for the benefit of the Proxy Holder in consideration of the Option Purchase Price (as defined in the Stock Option Agreement) paid by the Proxy Holder to the undersigned pursuant thereto. Capitalized terms used herein but not otherwise defined in this irrevocable proxy have the meanings ascribed to such terms in the Stock Option Agreement.

The Proxy Holder will be empowered and may exercise this irrevocable proxy if the Proxy Holder gives notice of its intent to exercise such rights to the undersigned, to take any of the following actions: (i) exercise all voting and other rights pertaining to the Option Shares, whether at any meeting of stockholders of the Company, action by written consent or otherwise and (ii) exercise any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to the Option Shares as if it were the absolute owner thereof (including the right to exchange at its discretion any and all of the Option Shares upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other structure of the Company, or upon the exercise by the Proxy Holder of any right, privilege or option pertaining to the Option Shares, and in connection therewith, the right to deposit and deliver any and all of the Option Shares with any committee, depositary, transfer agent, registrar or other designated agency upon such terms and conditions as the Proxy Holder may determine).

This proxy is granted in accordance with the laws of the State of Delaware and, to the extent permitted by law, this proxy shall continue in full force and effect until the earlier of (i) the date that the Proxy Holder exercises the Option in full and (ii) the Expiration Date.

In the event that any provision of this proxy becomes or is declared by a court of competent jurisdiction to be illegal, invalid, unenforceable or void, this proxy shall continue in full force and effect without said provision to the extent the intent of the undersigned and the Proxy Holder is effected. In such event, the undersigned shall, to the extent requested by the Proxy Holder, enter into such legal, valid and enforceable substitute provision as most nearly effects the intent of such parties in entering into this proxy.

Any obligation of the undersigned hereunder shall be binding upon the heirs, successors and assigns of the undersigned (including any transferee of any of the Option Shares).

IN WITNESS WHEREOF, the undersigned has executed this irrevocable proxy as of this 4th day of September, 2012.

/s/ Guy J. Quigley

GUY J. QUIGLEY

3720 Fountain Circle

Fountainville, Pennsylvania 18923

September 14, 2012

Ted Karkus
Chairman and Chief Executive Officer
ProPhase Labs, Inc.
621 N. Shady Retreat Road
Doylestown, PA 18901

Dear Mr. Karkus:

In our letter to you dated May 29, 2012, we made what we believe to be a compelling proposal to acquire 100% of the outstanding shares of ProPhase Labs, Inc. (the "Company") in a transaction that we firmly believe would provide full value to your stockholders. Having received a letter from you on June 29, 2012 dismissing our offer, we sent you a second letter on September 6, 2012, reaffirming our interest in the Company. Because we have still not received any response to our second letter, we are writing again to reaffirm our strong and continuing interest in acquiring the Company at the same purchase price we had previously offered ? $1.40 per share in cash ? which, as we detail below, represents a significant premium to the Company's recent trading levels. Our proposal contemplates that the proposed buyer would be a newly formed corporation that would be affiliated with Matrixx Initiatives, Inc. ("Matrixx").

We continue to believe that a combination of the Company and Matrixx presents an exciting opportunity for our respective employees, business partners and other constituencies while delivering significant value to your Company's stockholders at a time when the Company is generating significant operating losses. To demonstrate our strong interest in pursuing a transaction to acquire the Company, on September 4, 2012 we purchased an option to acquire 1,453,427 shares of the Company's common stock from Guy J. Quigley, the Company's former Chairman and Chief Executive Officer, at an exercise price equal to our offer price. The shares underlying the option represent approximately 9.80% of the Company's outstanding common stock.

Since our May 29, 2012 letter, a number of events have transpired that have further convinced us that such a transaction at this time is in the best interests of your stockholders:

- **Potential NASDAQ Delisting**: On August 15, 2012, NASDAQ issued a letter notifying the Company that it is no longer in compliance with the minimum stockholders' equity requirement for continued listing on the NASDAQ Global Market, which puts the Company at risk of potential delisting.
- **Deteriorating Financial Performance**: The Company reported a net loss for the three months ended June 30, 2012 of $1.9 million, or $(0.13) per share, compared to a net loss of $1.0 million, or $(0.06) per share, for the three months ended June 30, 2011. The Company has now reported a net loss in the past three quarters, aggregating $4.5 million, and in eight of the twelve quarters since current management assumed its role in June 2009.

These developments further illustrate and reinforce the Company's tenuous business prospects. In contrast, our proposed transaction would deliver full, fair and compelling value to your stockholders and represents a premium of 32.1% over the Company's closing stock price on September 6, 2012, the day Mr. Quigley filed a Schedule 13D announcing our purchase of the option. It also represents a premium of 32.8% over the 30 day average closing price of the Company's stock and a 34.5% premium to the Company's average closing price over the 12 months preceding September 6, 2012.

I would also like to reiterate that our offer is not contingent on the receipt of any third party financing. As you know, Matrixx is controlled by the $3.0 billion H.I.G. Bayside Debt & LBO Fund II, L.P. ("Fund II"), which is managed by H.I.G. Capital. H.I.G. is one of the largest and most active private investment firms focused on middle market businesses with more than $8.5 billion in capital under management, a flexible approach to transactions, and an extensive track record of success. Since its founding in 1993, H.I.G. has invested in more than 200 middle market companies, developing a deep understanding of and appreciation for the unique challenges and opportunities such businesses present. Its team of over 150 investment professionals has substantial operating, consulting, and financial management experience, enabling it to contribute meaningfully to its portfolio companies. H.I.G. can provide the resources and capital to execute both organic growth initiatives as well as strategic acquisitions.

Financing for the acquisition would be provided through equity contributions from Fund II and credit facilities arranged by Matrixx's existing third-party lenders. Fund II has sufficient funds available to complete the offer without obtaining outside financing.

It has been and remains our preference to enter into and conclude a negotiated transaction with the Company. To-date, our assessment has been limited to the publicly available information. If you can demonstrate that there is greater value than is apparent from publicly available information, we would be prepared to consider increasing our offer price. We are prepared to sign a confidentiality agreement with customary standstill provisions that would restrict us from taking further public steps to acquire the Company so long as you agree in good faith to provide us with the requested information on a timely basis. In that event, we anticipate we would need only 30 days to conduct expedited due diligence of the Company and finalize terms of a possible transaction. We sincerely hope that you will either commence discussions with us or remove all obstacles so that your stockholders can make their own determinations about the adequacy of our offer.

This letter and our proposal constitute a preliminary, non-binding indication of interest to acquire all of the outstanding shares of the Company, and are not intended to create any legally binding obligations. We look forward to the opportunity of working with you to move this transaction forward and request a response to the proposal contained in this letter no later than Friday, September 21, 2012.

I sincerely hope you will agree that your shareholders' interests will be best served by meeting with us to discuss our proposal. Please feel free to contact me at (908) 344-3488 if you wish to discuss this letter in further detail.

Sincerely,

/s/ Marylou Arnett

Marylou Arnett
Chief Executive Officer
Matrixx Initiatives, Inc.

1 Grande Commons
440 Route 22 East, Suite 130
Bridgewater, NJ 08807
800-961-4889

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Brian D. Schwartz, Fraser Preston and Richard H. Siegel, signing singly, the undersigned's true and lawful attorney-in-fact to: (i) execute for and on behalf of the undersigned, in the undersigned's capacity as a beneficial owner of shares of Common Stock of ProPhase Labs, Inc., a Delaware corporation (the "Company"), any Schedule 13D or Schedule 13G, and any amendments, supplements or exhibits thereto (including any joint filing agreements) required to be filed by the undersigned under Section 13 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), and any Forms 3, 4, and 5 and any amendments, supplements or exhibits thereto required to be filed by the undersigned under Section 16(a) of the Exchange Act; (ii) do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such Schedule 13D, Schedule 13G, Form 3, 4, or 5 and timely file such forms with the United States Securities and Exchange Commission and any stock exchange in which the Common Stock of the Company is listed on or approved for quotation in, if any; and (iii) take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to each such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this power of attorney and the rights and powers herein granted. The undersigned acknowledges that the foregoing attorneys-in-fact, in serving in such capacity at the request of the undersigned, are not assuming, nor is the Company assuming, any of the undersigned's responsibilities to comply with Section 13 and Section 16 of the Exchange Act.

This Power of Attorney shall remain in full force and effect until the undersigned is no longer required to file reports or schedules under Section 13 or Section 16 of the Exchange Act with respect to the undersigned's holdings of and transactions in securities issued by the Company, unless earlier revoked by the undersigned in a signed writing delivered to the foregoing attorneys-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this day of September, 2012.

MATRIXX INITIATIVES, INC.

By: /s/ Marylou Arnett
Name: Marylou Arnett
Title: Chief Executive Officer

WONDER HOLDINGS ACQUISITION CORP.

By: /s/ Brian D. Schwartz
Name: Brian D. Schwartz
Title: President

H.I.G. BAYSIDE DEBT & LBO FUND II, L.P.

By: H.I.G. Bayside Advisors II, LLC
Its: General Partner

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G. BAYSIDE ADVISORS II, LLC

By: H.I.G.-GPII, Inc.
Its: Manager

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

H.I.G.-GPII, INC.

By: /s/ Richard H. Siegel
Name: Richard H. Siegel
Its: Vice President and General Counsel

/s/ Sami W. Mnaymneh
Sami W. Mnaymneh

/s/ Anthony A. Tamer
Anthony A. Tamer