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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 11, 2015

PROPHASE LABS, INC.
(Exact name of Company as specified in its charter)

Delaware	**0-21617**	**23-2577138**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

621 N. Shady Retreat Road **Doylestown, PA**	**18901**
(Address of principal executive offices)	(Zip Code)

Company's telephone number, including area code: **(215) 345-0919**

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

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

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

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

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

Item 1.01 Entry Into a Material Definitive Agreement.

Note and Warrant Purchase Agreement

On December 11, 2015, ProPhase Labs, Inc. (the "Company") entered two Subscription Agreements (the "Subscription Agreements") with the investors named therein (the "Investors") providing for the purchase of 12% Secured Promissory Notes – Series A ("Notes") in the aggregate principal amount of up to $3,000,000 and warrants to purchase shares of the Company's common stock (the "Warrants"). Notes in the amount of $1,500,000 were issued by the Company and its wholly-owned subsidiaries Pharmaloz Manufacturing Inc. and Quigley Pharma Inc. (collectively, the "Obligors") and funded on December 11, 2015. The Notes bear interest at the rate of 12% per annum and are due and payable on June 15, 2017. The Notes may be pre-paid at any time prior to maturity without penalty.

The Warrants grant the Investors the right to purchase 17,000 shares of common stock for every $500,000 of principal amount of Notes purchased by the Investors, at an exercise price of $1.35 per share which is equal to the closing price of the Company's common stock on the date of investment. The Warrants have an exercise term equal to three years and are exercisable commencing on the date of issuance.

The offers and sales of the Notes and Warrants were made without registration under the Securities Act, or the securities laws of certain states, in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act and Regulation D under the Securities Act and in reliance on similar exemptions under applicable state laws.

In connection with the issuance of the Notes, the Company entered into a security agreement with John E. Ligums, Jr., as collateral agent for the Investors (the "Security Agreement") to secure the timely payment and performance in full of the Obligors' obligations pursuant to the Notes. Under the Security Agreement, the Obligors grant to the Collateral Agent, for the benefit of the Investors a lien upon and security interest in the property and assets listed as collateral in the Security Agreement, including without limitation, all of the Obligors' personal property, inventory, equipment, general intangibles, cash and cash equivalents, and proceeds.

The foregoing descriptions of the Subscription Agreements, the Notes, Warrants and Security Agreement are summaries of the material terms only and are qualified in their entirety by the complete text of the Subscription Agreements, form of the Notes, form of the Warrants and Security Agreement attached as Exhibit 10.1, Exhibit 10.2, Exhibit 10.3 and Exhibit 10.4, respectively, to this Current Report on Form 8-K.

Item 2.03. Creation of Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The disclosure in Item 1.01 of this Current Report on Form 8-K is incorporated by reference into this Item.

Item 3.02. Unregistered Sales of Equity Securities.

The disclosure in Item 1.01 of this Current Report on Form 8-K is incorporated by reference into this Item.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

No.	Description
10.1	Subscription Agreements, each dated December 11, 2015
10.2	Form of 12% Secured Promissory Note – Series A
10.3	Form of Warrant
10.4	Security Agreement, dated December 11, 2015

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

ProPhase Labs, Inc.

By: */s/ Robert V. Cuddihy, Jr.*

Robert V. Cuddihy, Jr.
Chief Operating Officer and
Chief Financial Officer

Date: December 16, 2015

INDEX TO EXHIBITS

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ProPhase Labs, Inc.
12% Secured Promissory Note – Series A
and Warrant

SUBSCRIPTION AGREEMENT

1. SUBSCRIPTION

The undersigned subscriber hereby subscribes for a One Million Dollar ($1,000,000) 12% Secured Promissory Note – Series A due June 15, 2017 (the "***Note***"), together with the Warrant acquired simultaneously therewith (the "***Warrant"***), from **ProPhase Labs, Inc.** (the "***Company***"), a Delaware corporation having its principal place of business at 621 N. Shady Retreat Road, Doylestown PA 18901. The undersigned understands the Note is one of a series of 12% Secured Promissory Notes- Series A in the aggregate amount of up to $3,000,000 and that this subscription may be accepted or rejected in whole or in part by the Company in its sole discretion. The Warrant is exercisable for shares of the Company's common stock, par value $0.0005 per share (the "***Common Stock***"). The number of shares issuable upon exercise of the Warrant are collectively referred to herein as "***Warrant Shares***". The Note, the Warrant and the Warrant Shares are sometimes collectively referred to herein as the "***Securities***". This subscription is and shall be irrevocable (after passage of any right of rescission required by applicable state law) unless the Company for any reason rejects this subscription. Unless otherwise defined herein, all capitalized terms used herein have the respective meanings given to such terms in the Note, the Warrant or the Security Agreement granted in favor of all Series A Note holders simultaneously with the issuance of the Note.

2. REPRESENTATIONS AND WARRANTIES OF THE SUBSCRIBER

The undersigned subscriber hereby represents and warrants to the Company that the following statements are true and correct as of the date hereof:

(a) The undersigned is an accredited investor within the meaning of Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "***Securities Act***"). The undersigned is an accredited investor because he, she or it is**(please check each applicable category)**:

[ ] i) a bank is defined in Section 3(a)(2) of the 1933 Act;

[ ] ii) a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the 1933 Act, whether acting in its individual or fiduciary capacity;

[ ] iii) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended;

[ ] iv) an insurance company as defined in Section 2(13) of the 1933 Act;

[ ] v) an investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act");

[ ] vi) a business development company, as defined in Section 2(a)(48) of the 1940 Act;

[ ] vii) a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;

[ ] viii) any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000;

[ ] ix) any employee benefits plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with the investment decisions made solely by persons that are accredited investors;

[ ] x) a private business development company, as defined in section 202(a)(22) of the Advisers Act;

[ ] xi) an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "***Code***"), not formed for the specific purpose of acquiring a Unit, and which has total assets in excess of $5,000,000;

[ ] xii) a corporation, a Massachusetts or similar business trust, or a partnership, which entity was not formed for the specific purpose of acquiring a Unit, and which has total assets in excess of $5,000,000;

[X] xiii) a natural person whose individual net worth, or net worth together with that person's spouse, exceeds $1,000,000 (excluding from the calculation the value of the undersigned's primary residence but including any indebtedness secured by that residence that is in excess of that residence's value);

[X] xiv) a natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

[ ] xv) a trust with assets in excess of $5,000,000, not formed for the specific purpose of acquiring a Unit, whose purchase of the Note and Warrant is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under the 1933 Act;

[ ] xvi) any director, executive officer, or principal of the Company; and/or

[ ] xvii) any entity each of the equity owners of which satisfies one or more of the above conditions (i.e., are "accredited investors").

(b) The undersigned has evaluated carefully the undersigned's financial resources and investment position and the risks associated with this investment, and is able to bear the substantial economic risks of the undersigned's investment in the Securities for an indefinite period of time, can afford to hold the Note until maturity, and can afford a complete loss of the undersigned's investment in the Securities.

(c) The undersigned either has such knowledge and experience in financial, tax and business matters or has received professional guidance with respect to this investment, and is either alone, or with those providing such guidance, capable of evaluating the merits and risks of an investment in the Securities and to make an informed investment decision with respect thereto.

(d) The undersigned has been given the opportunity (i) to obtain information and to examine all documents relating to the Note and Warrant, the Company and its business, (ii) to ask questions of, and to receive answers from, the management of the Company concerning the Company, the Company's business, and the terms and conditions of this investment, and (iii) to obtain any additional information, to the extent the Company possesses such information or could acquire such information without unreasonable effort or expense, necessary to verify the accuracy of any information previously furnished. All such questions have been answered to the undersigned's full satisfaction, and the undersigned has not relied on oral representations or oral information furnished to the undersigned in connection with the purchase of the Securities which were in any way inconsistent with the Company's filings with the Securities Exchange Commission ("***SEC Filings***").

(e) The undersigned has had an opportunity to read and understand the provisions of this Subscription Agreement, to consult with the undersigned's adviser(s) or counsel regarding the operation and consequences of those provisions and has considered the effect of those provisions on the undersigned.

(f) No representations have been made to the undersigned concerning projected results, expected yields or any other prospective information concerning operation of the Company other than those contained in the SEC Filings and accompanying exhibits.

(g) The undersigned is acquiring the Securities for the undersigned's own account or for the undersigned's own account as fiduciary of either an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") for investment and not with a view to or for resale, in connection with public offering or distribution of the Securities and without any present intention to sell the Securities at any particular event or circumstance. The undersigned has no agreement or other arrangement with any person to sell, transfer or pledge all or any part of the Securities subscribed for that would guarantee the undersigned any profit or protect against any loss with respect to the Securities.

(h) The undersigned has no present obligation, indebtedness, or commitment, nor is any circumstance in existence that will compel the undersigned to secure funds by the sale of the Securities, nor is the undersigned a party to any plan or undertaking that would require or contemplate that proceeds from the sale of all or a part of the Securities be utilized in connection therewith. The undersigned does not intend or anticipate that the undersigned will rely on this investment as a source of income.

(i) The undersigned represents that the undersigned's investment in the Securities involves a high degree of risk. The undersigned takes full cognizance of, and understands such risks and has obtained sufficient information to evaluate the Company and the merits and risks of an investment in the Securities.

(j) The undersigned, if a corporation, partnership, trust or other entity, represents and warrants that it, or each of its equity owners, was not organized for the specific purpose of acquiring the Securities and has other investments or business activities or will make other investments or engage in other business activities, unless the undersigned has indicated the contrary to the Company and specified the number of beneficial owners thereof, and the Company has consented in writing thereto. The undersigned, if an individual, represents and warrants that the undersigned is not acquiring the Securities as a nominee, trustee, agent, or representative for any other person, unless the undersigned has indicated the contrary to the Company and specified the number of beneficial owners thereof, and the Company has consented in writing thereto.

(k) None of the Securities offered under by this Subscription Agreement have been registered under the Securities Act or the securities laws of certain states and are being offered and sold in reliance on exemptions from the registration requirements of the Securities Act and such laws. The Securities, and any beneficial interest therein, are subject to restrictions on transferability and resale and may not be transferred or resold, in whole or in part, except as permitted under the Securities Act and such laws pursuant to registration or exemption therefrom. The Securities have not been approved or disapproved by the Securities and Exchange Commission (the "***SEC***"), any state securities commission, or other regulatory authority, or have any of the foregoing authorities passed on or endorsed the merits of the offering of the Securities or the accuracy or adequacy of the SEC Filings with respect to such offering. Any representation to the contrary is unlawful. The undersigned understands that the Company is under no obligation to register the Securities under the Securities Act. Each Subscriber must bear the economic risk of an investment in the Securities, and the Securities may not be resold unless subsequently registered under applicable securities laws or unless an exemption from such registration is available.

(l) The undersigned confirms that the Securities were not offered to the undersigned by any means of general solicitation or general advertising.

(m) The undersigned's representations and warranties in this Section 2 are true and correct as of the date hereof and shall survive such delivery.

(n) The undersigned is authorized and has full right and power to subscribe for the Securities and to perform the undersigned's obligations pursuant to the provisions hereof, and the person signing this Subscription Agreement and any other instrument executed and delivered herewith on behalf of the prospective investor has been duly authorized by such entity and has full power and authority to do so.

(o) If the undersigned is an employee benefit plan subject to ERISA, then the undersigned acknowledges that the undersigned has been informed of and understands the investment objectives and policies of, and the investment strategies that may be pursued by, the Company and represents that the undersigned's investment in the Securities (i) is permissible under the documents and instruments governing such plan, (ii) satisfies the diversification requirements of section 404(a)(1)(C) of ERISA, (iii) is prudent considering all the facts and circumstances, including the fact that there is not expected to by any public market for the disposition of the Securities and (iv) is not a "prohibited transaction" within the meaning of section 406 of ERISA.

(p) The undersigned understands and acknowledges that any projections regarding the business or finances of the Company contained in the SEC Filings or any written materials received from the Company by the undersigned are based on numerous assumptions relying on certain factors over which the Company has no control, and accordingly these projections are not guaranteed or warranted and no assurance can be given to the undersigned about the returns that may be realized by an investment in the Securities. The undersigned acknowledges that any reliance on any projections contained in the SEC Filings or such written materials shall be solely at the undersigned's risk and the undersigned is expected to undertake its own due diligence, inspections, investigations and assessments as to the feasibility of the business of the Company.

(q) The undersigned understands that the representations contained in this Subscription Agreement are made for the purpose of qualifying the undersigned, or the entity for which the undersigned is acting, as a suitable investor for the purpose of establishing exemptions from the registration or qualification provisions of the Securities Act and the securities laws of certain states for the offering and sale of the Securities.

(r) The undersigned is either a citizen of the United States of America (including an entity organized under the laws of any of the 50 states of the United States) or taxed as a resident of the United States of America for purposes of federal income tax.

(s) The undersigned represents and warrants that its investment was not directly or indirectly derived from illegal activities, including any activities that would violate United States Federal or State laws or any laws and regulations of other countries.

(t) The undersigned acknowledges that United States Federal law, regulations and Executive Orders administered by the U.S. Treasury Department's Office of Foreign Assets Control ("***OFAC***") prohibit the Company from, among other things, engaging in transactions with, and the provision of services to, persons on the list of Specially Designated Nationals and Blocked Persons and foreign countries and territories subject to U.S. sanctions administered by OFAC (together, the "OFAC Maintained Sanctions").

(u) The undersigned represents and warrants that neither the undersigned, nor any person controlling, controlled by, or under common control with, the undersigned, nor, to the best of the undersigned's knowledge, any person having a beneficial interest in the undersigned, or for whom the undersigned is acting as agent or nominee in connection with this investment, (i) is a country, territory, person or entity subject to an OFAC Maintained Sanction or (ii) is a foreign shell bank as that term is defined by the U.S. Treasury Department.

(v) The undersigned represents and warrants that, if it is an entity designated as a "financial institution" in the USA PATRIOT Act of 2001 (generally including banks, trust companies, thrift institutions, agencies or branches of foreign banks, investment bankers, broker-dealers, investment companies, insurance companies, investment advisers, futures commission merchants, commodity trading advisors, and commodity pool operators), it has implemented and enforces an anti-money laundering program ("***AMLP***") that is compliant with the USA PATRIOT Act of 2001 and that its AMLP, at a minimum:

- Maintains and enforces a customer identification program in accordance with applicable regulatory requirements under Section 326 of the USA PATRIOT Act of 2001;

- For each investor, client, customer, and principal, verifies and documents its investor, client, customer or principal nor any person that controls, is controlled by or is under common control with any investor, client, customer or principal (1) is a country, territory, person or entity subject to an OFAC Maintained Sanction, or (2) is a foreign shell bank as that term is defined by the U.S. Treasury Department;

- Includes reasonable internal procedures and controls to detect and report suspicious activities;
- Designates a compliance officer for anti-money laundering responsibilities;
- Provides on-going employee training with respect to anti-money laundering policies and procedures; and
- Includes an independent audit function to test its AMLP.

(w) The undersigned acknowledges and agrees that the Company, in complying with anti-money laundering statutes, regulations and goals, may file voluntarily and/or as required by law suspicious activity reports ("***SARs***") or any other information with governmental and law enforcement agencies that identify transactions and activities that the Company or its agents reasonably determine to be suspicious, or is otherwise required by law.

(x) The undersigned acknowledges that the Company is prohibited by law from disclosing to third parties, including the undersigned, any filing or the substance of any SAR.

(y) The undersigned confirms that all information and documentation provided to the Company, including, but not limited to, all information regarding the undersigned's identity, business, investment objectives, and source of the funds to be invested in the Company, is true and correct.

(z) The undersigned represents and warrants that he/she/it is [ ]/ is not [X] **(please check one)** a senior foreign political figure, or an immediate family member or close associate of a senior foreign political figure within the meaning of the USA PATRIOT Act of 2001 and that the undersigned is [ ]/ is not [X] **(please check one)** making an investment in the Company on behalf of such a person.

(aa) The undersigned acknowledges that the Company may not accept any investment from the undersigned if the undersigned cannot truthfully make the representations set forth in any of the preceding subsections.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the undersigned subscriber that the following statements are true and correct:

(a) Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation. The Company is duly qualified to do business, and is in good standing in the states required due to (a) the ownership or lease of real or personal property for use in the operation of the Company's business or (b) the nature of the business conducted by the Company except where failure to do so would not have a material adverse effect on the Company. The Company has all requisite power, right and authority to own, operate and lease its properties and assets, to carry on its business as now conducted, to execute, deliver and perform its obligations under this Subscription Agreement, the Note, the Warrant and the security agreement executed in connection with the Note (collectively, the "***Transaction Documents***"), and to carry out the transactions contemplated hereby and thereby. All actions on the part of the Company and its officers and directors necessary for the authorization, execution, delivery and performance of the Transaction Documents, the consummation of the transactions contemplated hereby and thereby, and the performance of all of the Company's obligations under Transaction Documents have been taken or will be taken prior to the closing. Each of the Transaction Documents have been duly executed and delivered by the Company, and each of the Transaction Documents constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency, moratorium and similar laws of general application relating to or affecting the enforcement of rights of creditors, and except as enforceability of the obligations hereunder are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or law).

(b) Issuance of Securities. The Securities to be issued to the undersigned investor pursuant to this Subscription Agreement and the Warrant, as applicable, when issued and delivered in accordance with the terms of this Subscription Agreement and the Warrant, as applicable, will be duly and validly issued and will be fully paid and non-assessable.

(c) Authorization; Enforcement. The execution, delivery and performance of the Transaction Documents by the Company, and the consummation of the transactions contemplated hereby and thereby, will not (a) constitute a violation (with or without the giving of notice or lapse of time, or both) of any provision of any law or any judgment, decree, order, regulation or rule of any court, agency or other governmental authority applicable to the Company or any of its Subsidiaries (as defined below), including, without limitation, the rules of the Principal Market (defined below), (b) require any consent, approval or authorization of, or declaration, filing or registration with, any person, including, without limitation, any shareholder of the Company and/or the Principal Market, (c) result in a default (with or without the giving of notice or lapse of time, or both) under, acceleration or termination of, or the creation in any party of the right to accelerate, terminate, modify or cancel, any agreement, lease, note or other restriction, encumbrance, obligation or liability to which the Company or any of its Subsidiaries is a party or by which it is bound or to which any assets of the Company or any of its Subsidiaries are subject, (d) result in the creation of any lien or encumbrance upon the assets of the Company or any of its Subsidiaries, or upon any shares of Common Stock, preferred stock or other securities of the Company or any of its Subsidiaries except for liens in favor of the holders of the Notes created by the Security Agreement, (e) conflict with or result in a breach of or constitute a default under any provision of the certificate of incorporation or bylaws of the Company or any of its Subsidiaries, or (f) invalidate or adversely affect any permit, license, authorization or status used in the conduct of the business of the Company and its Subsidiaries.

(d) SEC Filings. The Company is subject to, and in full compliance with, the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"). The Company has made available to each subscriber through the EDGAR system true and complete copies of the Company's filings for the prior two full fiscal years plus any interim period (collectively, the "***SEC Filings***"). Since December 31, 2013, the SEC Filings, when they were filed with the SEC (or, if any amendment with respect to any such document was filed, when such amendment was filed), complied in all material respects with the applicable requirements of the Exchange Act and the rules and regulations thereunder and did not, as of such date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. All reports and statements required to be filed by the Company under the Exchange Act have been filed, together with all exhibits required to be filed therewith. The Company and each of its direct and indirect subsidiaries, if any (collectively, the "***Subsidiaries***"), are engaged in all material respects only in the business described in the SEC Filings, and the SEC Filings contain a complete and accurate description in all material respects of the business of the Company and the Subsidiaries.

(e) No Financial Advisor. The Company acknowledges and agrees that each subscriber is acting solely in the capacity of an arm's length purchaser with respect to the Securities and the transactions contemplated hereby. The Company further acknowledges that the undersigned subscriber is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by any subscriber or any of its representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to such subscriber's purchase of the Securities. The Company further represents to each subscriber that the Company's decision to enter into this Subscription Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(f) Capitalization and Additional Issuances. The authorized and outstanding capital stock of the Company on a fully diluted basis as of the date of this Subscription Agreement are set forth in the Company's SEC Filings. Except as set forth in the Company's SEC Filings, there are no options, warrants, or rights to subscribe to, securities, rights, understandings or obligations convertible into or exchangeable for or giving any right to subscribe for any shares of capital stock or other equity interest of the Company or any of its subsidiaries. The only officer, director, employee and consultant stock option or stock incentive plan or similar plan currently in effect or contemplated by the Company are described in the Company's SEC Filings. There are no outstanding agreements or preemptive or similar rights affecting the Company's Common Stock.

(g) Private Placements. Assuming the accuracy of the subscriber's representations and warranties set forth in Section 2 of this Subscription Agreement, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the subscriber as contemplated hereby. None of the Company, its Subsidiaries or any of their affiliates, nor any Person (as defined below) acting on their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the issuance of any of the Securities under the Securities Act, whether through integration with prior offerings or otherwise, or caused this offering of the Securities (or any other offering of securities of the Company taken together with this transaction) to require approval of stockholders of the Company under any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of the Principal Market. None of the Company, its Subsidiaries, their affiliates nor any Person acting on their behalf will take any action or steps that would require registration of the issuance of any of the Securities under the Securities Act or cause the offering of any of the Securities to be integrated with other offerings of securities of the Company.

(h) Investment Company. The Company is not, and is not an affiliate of, and immediately after receipt of payment for the Securities will not be or be an affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(i) Shell Company Status. The Company is not and has never been an issuer identified in Rule 144(i)(1) of the Securities Act. The Company is, and has been for a period of at least three (3) years, subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act.

(j) Litigation. Except as set forth in the SEC Filings, there is no action, suit, proceeding, inquiry or investigation before or by the Principal Market, any court, public board, other Governmental Entity, self-regulatory organization or body pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, the Common Stock or any of the Company's or its Subsidiaries' officers or directors which is outside of the ordinary course of business or individually or in the aggregate material to the Company or any of its Subsidiaries. No director, officer or employee of the Company or any of its Subsidiaries has willfully violated 18 U.S.C. §1519 or engaged in spoliation in reasonable anticipation of litigation. Without limitation of the foregoing, there has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the SEC involving the Company, any of its Subsidiaries or any current or former director or officer of the Company or any of its Subsidiaries. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company under the Securities Act or the Exchange Act. "***Governmental Entity***" means any nation, state, county, city, town, village, district, or other political jurisdiction of any nature, federal, state, local, municipal, foreign, or other government, governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal), multi-national organization or body; or body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature or instrumentality of any of the foregoing, including any entity or enterprise owned or controlled by a government or a public international organization or any of the foregoing. "***Principal Market***" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market, the New York Stock Exchange, OTCQX, OTCQB, OTCPK or the OTC Bulletin Board (or any successors to any of the foregoing).

(k) Employee Relations. Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or employs any member of a union. The Company believes that its and its Subsidiaries' relations with their respective employees are good. The Company and its Subsidiaries are in compliance with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. "***Material Adverse Effect***" means any material adverse effect on (i) the business, properties, assets, liabilities, operations (including results thereof), condition (financial or otherwise) or prospects of the Company and its Subsidiaries, taken as a whole, (ii) the transactions contemplated hereby or (iii) the authority or ability of the Company or any of its Subsidiaries to perform any of their respective obligations under any of this Subscription Agreement, the Note or the Warrant.

(l) Tax Status. The Company and each of its Subsidiaries (i) has timely made or filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has timely paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company and its Subsidiaries know of no basis for any such claim. The Company is not operated in such a manner as to qualify as a passive foreign investment company, as defined in Section 1297 of the U.S. Internal Revenue Code of 1986, as amended.

(m) Indebtedness and Other Contracts. Except as set forth in the SEC Filings, neither the Company nor any of its Subsidiaries, (i) has any outstanding Indebtedness (as defined below), (ii) is a party to any contract, agreement or instrument, the violation of which, or default under which, by the other party(ies) to such contract, agreement or instrument could reasonably be expected to result in a Material Adverse Effect, (iii) is in violation of any term of, or in default under, any contract, agreement or instrument relating to any Indebtedness, or (iv) is a party to any contract, agreement or instrument relating to any Indebtedness, the performance of which, in the judgment of the Company's officers, has or is expected to have a Material Adverse Effect. For purposes of this Agreement: (x) "***Indebtedness***" of any Person means, without duplication (A) all indebtedness for borrowed money, (B) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (including, without limitation, "capital leases" in accordance with generally accepted accounting principles) (other than trade payables entered into in the ordinary course of business), (C) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (D) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses, (E) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property) required by US GAAP to be disclosed in the Company's financial statements, (F) all monetary obligations under any leasing or similar arrangement which, in connection with generally accepted accounting principles, consistently applied for the periods covered thereby, is classified as a capital lease, (G) all indebtedness referred to in clauses (A) through (F) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, claim, lien, tax, right of first refusal, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by any Person, even though the Person which owns such assets or property has not assumed or become liable for the payment of such indebtedness, and (H) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (A) through (G) above; (y) "***Contingent Obligation***" means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; and (z) "***Person***" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and any Governmental Entity or any department or agency thereof.

(n) No Undisclosed Events, Liabilities, Developments or Circumstances. Except as set forth in the SEC Filings and except for the transactions contemplated hereby, no event, liability, development or circumstance has occurred or exists, or is reasonably expected to exist or occur with respect to the Company, any of its Subsidiaries or any of their respective businesses, properties, liabilities, prospects, operations (including results thereof) or condition (financial or otherwise), that (i) would be required to be disclosed by the Company under applicable securities laws on a registration statement on Form S-1 filed with the SEC relating to an issuance and sale by the Company of its Common Stock and which has not been publicly announced, (ii) could have a material adverse effect on any subscriber's investment hereunder or (iii) would reasonably be expected to have a Material Adverse Effect.

(o) No Disqualification Events. To the Company's knowledge, none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering contemplated hereby, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, calculated on the basis of voting power, nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an "***Issuer Covered Person***") is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "***Disqualification Event***"), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event.

(p) General Solicitation. None of the Company, any of its affiliates (as defined in Rule 501(b) under the Securities Act) or any person acting on behalf of the Company or such affiliate will solicit any offer to buy or offer or sell the Securities by means of any form of general solicitation or general advertising within the meaning of Regulation D, including: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over television or radio; and (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

(q) Application of Takeover Protections; Rights Agreement. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, interested stockholder, business combination, poison pill (including, without limitation, any distribution under a rights agreement), stockholder rights plan or other similar anti-takeover provision under its certificate of incorporation, bylaws or other organizational documents or the laws of the jurisdiction of its incorporation or otherwise which is or could become applicable to the undersigned subscriber as a result of the transactions contemplated by the Transaction Documents, including, without limitation, the Company's issuance of the Securities and any subscriber's ownership of the Securities. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any stockholder rights plan or similar arrangement relating to accumulations of beneficial ownership of shares of Common Stock or a change in control of the Company or any of its Subsidiaries. No claim will be made or enforced by the Company or, to the knowledge of the Company, any other person that any subscriber is an "Acquiring Person" under any shareholder rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any subscriber could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under this Subscription Agreement or the Warrant or under any other agreement between the Company and any subscriber.

4. SUBSCRIPTION PROCEDURES

The Company shall have the right to accept or reject this subscription, in whole or in part, and this subscription shall be deemed to be accepted by the Company only when a copy of the signature page of this Subscription Agreement is executed by the Company. A prospective Subscriber will only own any Note and become the holder of a Warrant therein upon acceptance of the Subscription Agreement. A minimum investment (lending commitment) of $500,000 is required. Subscriptions need not be accepted in the order received by the Company. The undersigned understands and agrees that this subscription may be accepted or rejected by the Company, in whole or in part in its sole and absolute discretion, and if accepted, the Securities purchased pursuant hereto will be issued only in the name of the undersigned. The undersigned hereby acknowledges and agrees that, except as otherwise provided by applicable state law, this Subscription Agreement may not be canceled, revoked or withdrawn, and that this Subscription Agreement and the documents submitted herewith shall survive (i) changes in the transactions, documents and instruments that are not material, and (ii) death or disability of the undersigned.

5. INDEMNIFICATION

The Company will indemnify and hold harmless each subscriber and, where applicable, its directors, officers, employees, agents, advisors, affiliates and shareholders (each, an "***Indemnitee***", from and against any and all loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any claim, lawsuit, administrative proceeding or investigation whether commenced or threatened) (the "***Indemnified Liabilities***"), incurred by any Indemnitee as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Company in any of the Transaction Documents, (ii) any breach of any covenant, agreement or obligation of the Company contained in any of the Transaction Documents or (iii) any cause of action, suit, proceeding or claim brought or made against such Indemnitee by a third party (including for these purposes a derivative action brought on behalf of the Company or any Subsidiary) or which otherwise involves such Indemnitee that arises out of or results from (A) the execution, delivery, performance or enforcement of the Transaction Documents, (B) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of the issuance of the Securities, or (C) the status of such subscriber or holder of the Securities either as an investor in the Company pursuant to the transactions contemplated hereby or as a party to the Transaction Documents (including, without limitation, as a party in interest or otherwise in any action or proceeding for injunctive or other equitable relief). To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. The amount of any Indemnified Liability shall be net of (i) any amounts recovered by the Indemnitee in respect of such Indemnified Liability pursuant to any indemnification by or indemnification agreement with any third party (net of any costs of recovery), (ii) any insurance proceeds actually received by the Indemnity in respect of the Indemnified Liability (net of any deductible amounts or associated incremental premiums that the Indemnitee reasonably expects to incur as a result of the claim) and (iii) any tax benefit to the Indemnitee, to the extent such tax benefit relates solely to such Indemnified Liability. Notwithstanding anything contained herein to the contrary, an Indemnitee shall not be required to seek to recover any amounts, proceeds or benefits referred to in the immediately preceding sentence as a condition precedent to seeking indemnification from the Company pursuant to this Section 5.

6. RESTRICTIONS OF TRANSFER

(a) Legends. The subscriber understands that the Securities have been issued (or will be issued in the case of the Warrant Shares) pursuant to an exemption from registration or qualification under the Securities Act and applicable state securities laws, and except as set forth in Section 6(b) below, the Securities shall bear any legend as required by the "blue sky" laws of any state and a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such stock certificates):

> NEITHER THIS SECURITY NOR THE SECURITIES UNDERLYING THIS SECURITY HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

(b) Removal of Legends. Certificates evidencing Securities shall not be required to contain the legend set forth in Section 6(a) above or any other legend (i) while a registration statement covering the resale of such Securities is effective under the Securities Act, (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act (assuming the transferor is not an affiliate of the Company), (iii) if such Securities are eligible to be sold, assigned or transferred under Rule 144 under the Securities Act (provided that the Investor provides the Company with reasonable assurances that such Securities are eligible for sale, assignment or transfer under Rule 144 which shall not include an opinion of counsel), (iv) in connection with a sale, assignment or other transfer (other than under Rule 144), provided that such subscriber provides the Company with an opinion of counsel to such subscriber, in a generally acceptable form, to the effect that such sale, assignment or transfer of the Securities may be made without registration under the applicable requirements of the Securities Act or (v) if such legend is not required under applicable requirements of the Securities Act (including, without limitation, controlling judicial interpretations and pronouncements issued by the SEC). If a legend is not required pursuant to the foregoing, the Company shall no later than three (3) Business Days following the delivery by the subscriber to the Company or the transfer agent (with notice to the Company) of a legended certificate representing such Securities (endorsed or with stock powers attached, signatures guaranteed, and otherwise in form necessary to affect the reissuance and/or transfer, if applicable), as directed by such subscriber, either: (A) provided that the Company's transfer agent is participating in the DTC Fast Automated Securities Transfer Program and such Securities are Warrant Shares, credit the aggregate number of shares of Common Stock to which such subscriber shall be entitled to such subscriber's or its designee's balance account with DTC through its Deposit/Withdrawal at Custodian system or (B) if the Company's transfer agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and deliver at the Company's expense (via reputable overnight courier) to such subscriber, a certificate representing such Securities that is free from all restrictive and other legends, registered in the name of such subscriber or its designee (the date by which such credit is so required to be made to the balance account of such subscriber's or such subscriber's nominee with DTC or such certificate is required to be delivered to such subscriber pursuant to the foregoing is referred to herein as the "***Required Delivery Date***"). If the Company fails to (i) issue and deliver (or cause to be delivered) to the subscriber by the Required Delivery Date a certificate representing Warrant Shares so delivered to the Company by such subscriber that is free from all restrictive and other legends or (ii) credit the balance account of such subscriber's or such subscriber's nominee with DTC for such number of Warrant Shares so delivered to the Company, and if after such date the subscriber is required to effect a Buy-In (as defined in the Warrant), then, in addition to all other remedies available to such subscriber, the Company shall pay in cash to such subscriber the amount set forth in Section 2(d)(iv) of the Warrant.

7. SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER

The undersigned, under penalties of perjury, certifies that the taxpayer identification number or Social Security number shown hereon is true and correct and that the undersigned is not subject to any withholding either because the undersigned has not been notified that the undersigned is subject to backup withholding as a result of failure to report all interest or dividends or because the Internal Revenue Service has notified the undersigned that the undersigned is no longer subject to backup withholding.

8. FURTHER COVENANTS

(a) Securities Laws Disclosure; Publicity. If required under the Exchange Act, the Company shall within four (4) Business Days after this Subscription Agreement has been executed, file a Current Report on Form 8-K with the SEC, including the Transaction Documents as exhibits thereto (the "***8-K Filing***"). From and after the filing of the 8-K Filing, the Company shall have publicly disclosed all material, non-public information delivered to any of the subscribers by the Company or any of its Subsidiaries, or any of their respective officers, directors, employees or agents. No subscriber shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, which consent shall not unreasonably be withheld.

(b) Integration. The Company shall not, and shall use its best efforts to ensure that no affiliate of the Company shall, after the date hereof, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security other than additional notes and warrants issued hereunder that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the subscribers.

(c) Reservation of Securities. The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Warrant in such amount as may be required to fulfill its obligations in full under the Warrant. In the event that at any time the then authorized shares of Common Stock are insufficient for the Company to satisfy its obligations in full under the Warrant, the Company shall promptly take such actions as may be required to increase the number of authorized shares.

(d) Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated hereby, the Company covenants and agrees that neither it, nor any other Person acting on its behalf will provide any subscriber or its agents or counsel with any information that the Company believes constitutes material non-public information. The Company understands and confirms that each subscriber shall be relying on the foregoing covenant in effecting transactions in securities of the Company. In addition, effective upon the filing of the 8-K Filing, the Company acknowledges and agrees that any and all confidentiality or similar obligations under any agreement, whether written or oral, between the Company, any of its Subsidiaries or any of their respective officers, directors, affiliates, employees or agents, on the one hand, and the subscriber or any of its affiliates, on the other hand, shall terminate.

(e) Accounts and Records; Inspections. The Company shall keep true records and books of account in which full, true and correct entries will be made of all dealings or transactions in relation to the business and affairs of the Company and its subsidiaries in accordance with GAAP applied on a consistent basis. The Company shall permit each holder of any Securities or any of such holder's officers, employees or representatives during regular business hours of the Company, upon reasonable notice and as often as such holder may reasonably request, to visit and inspect the offices and properties of the Company and its subsidiaries and to make extracts or copies of the books, accounts and records of the Company or its subsidiaries at such holder's expense. Nothing contained in this Section shall be construed to limit any rights which a holder of any Securities may otherwise have with respect to the books and records of the Company and its Subsidiaries, to inspect its properties or to discuss its affairs, finances and accounts.

9. GENERAL PROVISIONS

(a) This Subscription Agreement will be governed by and construed in accordance with the substantive laws of the State of Delaware without regard thereof relating to conflicts of laws.

(b) This Subscription Agreement, together with the Note, the Security Agreement and the Warrant constitutes the entire agreement between the parties with respect to the subject matter and supersedes any prior agreements between the parties. This Subscription Agreement may be amended only by a writing executed by the parties.

(c) The Note or Warrant will be assigned or transferred only in accordance with applicable law and the terms of this Subscription Agreement and the Note or Warrant, as the case may be.

(d) This Subscription Agreement will survive the undersigned's death or dissolution and will be binding upon the undersigned's successors, heirs, assignees, representatives and distributees.

(e) If any provision of this Subscription Agreement is invalid or unenforceable under any applicable law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified only to the extent necessary to conform to such applicable law. Any provision hereof that may be held invalid or unenforceable under any applicable law shall not affect the validity or enforceability of any other provisions hereof, and to this extent the provisions hereof shall be severable.

(f) The parties' representations and warranties in the Transaction Documents shall survive the execution and delivery of such Transaction Documents.

(g) Within five days after receipt of a request from the Company, the undersigned hereby agrees to provide such reasonable information and to execute and deliver such documents as may be reasonably necessary to comply with any and all laws to which the Company is subject.

(h) The Company shall reimburse the reasonable, documented legal fees incurred by the Subscribers in preparing and negotiating the Transaction Documents; provided that, in no event shall the Company reimburse more than $10,000 in the aggregate.

10. SUBSCRIPTION

The undersigned hereby subscribes for a One Million Dollar ($1,000,000) Note to be issued by the Company, the Warrant and 34,000 Warrant Shares. The undersigned understands that this subscription is and shall be irrevocable after passage of any right of rescission required by applicable state law.

1. The Subscriber is [ ]/ is not [X] *please check as appropriate)* a **"benefit plan investor."**

A "benefit plan investor" is a plan described in 19 C.F.R. Section 2510.3-101(f)(2) issued by the United States Department of Labor *i.e.,* any employee benefit plan, whether or not subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other plan subject to the prohibited transaction provisions of Section 4975 of the **Internal Revenue** Code of 1986, as amended ("Code")) or an entity whose assets are deemed "plan assets" for purposes of Title I of ERISA and Section 4975 of the code.

If the Subscriber is a benefit plan investor (a "Plan"), it is so because it is**(please check as appropriate):**

[ ] an employee benefit plan within the meaning of and subject to Title I or ERISA (an "ERISA Plan"); or

[ ] an entity whose assets are deemed to constitute "plan assets" for purposes of Title I of ERISA and Section 4975 of the Code (also an "ERISA Plan").

2. The Subscriber is [ ]/ is not [X] (please check as appropriate) exempt from U.S. federal income tax under the Code.**If the Subscriber is tax-exempt, please attach to this Agreement a copy of the Determination Letter from the Internal Revenue Service regarding the Subscriber's tax-exempt status.**

3. The Subscriber is [ ]/ is not [X] (please check as appropriate) a "**venture capital operating company**" as such term is defined in 29 CFR Section 2510.3-101.

4. Does the undersigned grant permission to the Company to identify the undersigned by name as an investor in the Company to prospective investors in the Company.

[X] Yes

[ ] No

The undersigned represents that the undersigned has read this Subscription Agreement.

The wire instructions in connection with the subscription for the Note are as follows:

Bank:

ABA #:

Account Name:

Account #:

(***The remainder of this page is intentionally left blank)***

IN WITNESS WHEREOF, the Company has executed this Subscription Agreement as of the 11th day of December, 2015, at _____, _____.
(City) (State)

COMPANY:

PROPHASE LABS, INC.

By: */s/ Ted Karkus*
Name: Ted Karkus
Title: Chief Executive Officer

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the _____ day of _____, 201_, at _____, _____.
(City) (State)

BUSINESS ENTITIES

_____
Name of Business Entity

TIN _____

By: _____

Name: _____

Title: _____

_____
State of Organization

_____
Business Address

_____
Telephone Number

_____
Facsimile Number

_____
E-mail Address

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the _____ day of _____, 201_, at _____, _____.
(City) (State)

TRUSTS OR PLANS

_____
Name of Trust or Plan

TIN _____

By: _____

Name: _____

Title: _____

_____
State of Formation, if applicable

_____
Plan Address

_____
Telephone Number

_____
Facsimile Number

_____
E-mail Address

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the 11th day of December, 2015, at _____, _____.
(City) (State)

INDIVIDUALS

/s/ John E. Ligums, Jr.	
Signature of Prospective Investor	Signature of Co-Owner or Spouse (if applicable)
SSN:	SSN:
Typed or printed FULL Name of Prospective Investor	Typed or Printed FULL name of Co-Owner or Spouse (if applicable)
State of Residence	State of Residence
Employer	Employer
Occupation	Occupation
Business/Home Address	Business/Home Address
Facsimile Number	Facsimile Number
E-mail Address	E-mail Address

Send correspondence to

_____Home _____Office

ProPhase Labs, Inc.
12% Secured Promissory Note – Series A
and Warrant

SUBSCRIPTION AGREEMENT

1. SUBSCRIPTION

The undersigned subscriber hereby subscribes for a Five Hundred Thousand Dollar ($500,000) 12% Secured Promissory Note – Series A due June 15, 2017 (the "***Note***"), together with the Warrant acquired simultaneously therewith (the "***Warrant"***), from **ProPhase Labs, Inc.** (the "***Company***"), a Delaware corporation having its principal place of business at 621 N. Shady Retreat Road, Doylestown PA 18901. The undersigned understands the Note is one of a series of 12% Secured Promissory Notes-Series A in the aggregate amount of up to $3,000,000 and that this subscription may be accepted or rejected in whole or in part by the Company in its sole discretion. The Warrant is exercisable for shares of the Company's common stock, par value $0.0005 per share (the "***Common Stock***"). The number of shares issuable upon exercise of the Warrant are collectively referred to herein as "***Warrant Shares***". The Note, the Warrant and the Warrant Shares are sometimes collectively referred to herein as the "***Securities***". This subscription is and shall be irrevocable (after passage of any right of rescission required by applicable state law) unless the Company for any reason rejects this subscription. Unless otherwise defined herein, all capitalized terms used herein have the respective meanings given to such terms in the Note, the Warrant or the Security Agreement granted in favor of all Series A Note holders simultaneously with the issuance of the Note.

2. REPRESENTATIONS AND WARRANTIES OF THE SUBSCRIBER

The undersigned subscriber hereby represents and warrants to the Company that the following statements are true and correct as of the date hereof:

(a) The undersigned is an accredited investor within the meaning of Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "***Securities Act***"). The undersigned is an accredited investor because he, she or it is**(please check each applicable category)**:

[ ] i) a bank is defined in Section 3(a)(2) of the 1933 Act;

[ ] ii) a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the 1933 Act, whether acting in its individual or fiduciary capacity;

[ ] iii) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended;

[ ] iv) an insurance company as defined in Section 2(13) of the 1933 Act;

[ ] v) an investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act");

[ ] vi) a business development company, as defined in Section 2(a)(48) of the 1940 Act;

[ ] vii) a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;

[ ] viii) any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000;

[ ] ix) any employee benefits plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with the investment decisions made solely by persons that are accredited investors;

[ ] x) a private business development company, as defined in section 202(a)(22) of the Advisers Act;

[ ] xi) an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "***Code***"), not formed for the specific purpose of acquiring a Unit, and which has total assets in excess of $5,000,000;

[ ] xii) a corporation, a Massachusetts or similar business trust, or a partnership, which entity was not formed for the specific purpose of acquiring a Unit, and which has total assets in excess of $5,000,000;

[X] xiii) a natural person whose individual net worth, or net worth together with that person's spouse, exceeds $1,000,000 (excluding from the calculation the value of the undersigned's primary residence but including any indebtedness secured by that residence that is in excess of that residence's value);

[X] xiv) a natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

[ ] xv) a trust with assets in excess of $5,000,000, not formed for the specific purpose of acquiring a Unit, whose purchase of the Note and Warrant is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under the 1933 Act;

[ ] xvi) any director, executive officer, or principal of the Company; and/or

[ ] xvii) any entity each of the equity owners of which satisfies one or more of the above conditions (i.e., are "accredited investors").

(b) The undersigned has evaluated carefully the undersigned's financial resources and investment position and the risks associated with this investment, and is able to bear the substantial economic risks of the undersigned's investment in the Securities for an indefinite period of time, can afford to hold the Note until maturity, and can afford a complete loss of the undersigned's investment in the Securities.

(c) The undersigned either has such knowledge and experience in financial, tax and business matters or has received professional guidance with respect to this investment, and is either alone, or with those providing such guidance, capable of evaluating the merits and risks of an investment in the Securities and to make an informed investment decision with respect thereto.

(d) The undersigned has been given the opportunity (i) to obtain information and to examine all documents relating to the Note and Warrant, the Company and its business, (ii) to ask questions of, and to receive answers from, the management of the Company concerning the Company, the Company's business, and the terms and conditions of this investment, and (iii) to obtain any additional information, to the extent the Company possesses such information or could acquire such information without unreasonable effort or expense, necessary to verify the accuracy of any information previously furnished. All such questions have been answered to the undersigned's full satisfaction, and the undersigned has not relied on oral representations or oral information furnished to the undersigned in connection with the purchase of the Securities which were in any way inconsistent with the Company's filings with the Securities Exchange Commission ("***SEC Filings***").

(e) The undersigned has had an opportunity to read and understand the provisions of this Subscription Agreement, to consult with the undersigned's adviser(s) or counsel regarding the operation and consequences of those provisions and has considered the effect of those provisions on the undersigned.

(f) No representations have been made to the undersigned concerning projected results, expected yields or any other prospective information concerning operation of the Company other than those contained in the SEC Filings and accompanying exhibits.

(g) The undersigned is acquiring the Securities for the undersigned's own account or for the undersigned's own account as fiduciary of either an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") for investment and not with a view to or for resale, in connection with public offering or distribution of the Securities and without any present intention to sell the Securities at any particular event or circumstance. The undersigned has no agreement or other arrangement with any person to sell, transfer or pledge all or any part of the Securities subscribed for that would guarantee the undersigned any profit or protect against any loss with respect to the Securities.

(h) The undersigned has no present obligation, indebtedness, or commitment, nor is any circumstance in existence that will compel the undersigned to secure funds by the sale of the Securities, nor is the undersigned a party to any plan or undertaking that would require or contemplate that proceeds from the sale of all or a part of the Securities be utilized in connection therewith. The undersigned does not intend or anticipate that the undersigned will rely on this investment as a source of income.

(i) The undersigned represents that the undersigned's investment in the Securities involves a high degree of risk. The undersigned takes full cognizance of, and understands such risks and has obtained sufficient information to evaluate the Company and the merits and risks of an investment in the Securities.

(j) The undersigned, if a corporation, partnership, trust or other entity, represents and warrants that it, or each of its equity owners, was not organized for the specific purpose of acquiring the Securities and has other investments or business activities or will make other investments or engage in other business activities, unless the undersigned has indicated the contrary to the Company and specified the number of beneficial owners thereof, and the Company has consented in writing thereto. The undersigned, if an individual, represents and warrants that the undersigned is not acquiring the Securities as a nominee, trustee, agent, or representative for any other person, unless the undersigned has indicated the contrary to the Company and specified the number of beneficial owners thereof, and the Company has consented in writing thereto.

(k) None of the Securities offered under by this Subscription Agreement have been registered under the Securities Act or the securities laws of certain states and are being offered and sold in reliance on exemptions from the registration requirements of the Securities Act and such laws. The Securities, and any beneficial interest therein, are subject to restrictions on transferability and resale and may not be transferred or resold, in whole or in part, except as permitted under the Securities Act and such laws pursuant to registration or exemption therefrom. The Securities have not been approved or disapproved by the Securities and Exchange Commission (the "***SEC***"), any state securities commission, or other regulatory authority, or have any of the foregoing authorities passed on or endorsed the merits of the offering of the Securities or the accuracy or adequacy of the SEC Filings with respect to such offering. Any representation to the contrary is unlawful. The undersigned understands that the Company is under no obligation to register the Securities under the Securities Act. Each Subscriber must bear the economic risk of an investment in the Securities, and the Securities may not be resold unless subsequently registered under applicable securities laws or unless an exemption from such registration is available.

(l) The undersigned confirms that the Securities were not offered to the undersigned by any means of general solicitation or general advertising.

(m) The undersigned's representations and warranties in this Section 2 are true and correct as of the date hereof and shall survive such delivery.

(n) The undersigned is authorized and has full right and power to subscribe for the Securities and to perform the undersigned's obligations pursuant to the provisions hereof, and the person signing this Subscription Agreement and any other instrument executed and delivered herewith on behalf of the prospective investor has been duly authorized by such entity and has full power and authority to do so.

(o) If the undersigned is an employee benefit plan subject to ERISA, then the undersigned acknowledges that the undersigned has been informed of and understands the investment objectives and policies of, and the investment strategies that may be pursued by, the Company and represents that the undersigned's investment in the Securities (i) is permissible under the documents and instruments governing such plan, (ii) satisfies the diversification requirements of section 404(a)(1)(C) of ERISA, (iii) is prudent considering all the facts and circumstances, including the fact that there is not expected to by any public market for the disposition of the Securities and (iv) is not a "prohibited transaction" within the meaning of section 406 of ERISA.

(p) The undersigned understands and acknowledges that any projections regarding the business or finances of the Company contained in the SEC Filings or any written materials received from the Company by the undersigned are based on numerous assumptions relying on certain factors over which the Company has no control, and accordingly these projections are not guaranteed or warranted and no assurance can be given to the undersigned about the returns that may be realized by an investment in the Securities. The undersigned acknowledges that any reliance on any projections contained in the SEC Filings or such written materials shall be solely at the undersigned's risk and the undersigned is expected to undertake its own due diligence, inspections, investigations and assessments as to the feasibility of the business of the Company.

(q) The undersigned understands that the representations contained in this Subscription Agreement are made for the purpose of qualifying the undersigned, or the entity for which the undersigned is acting, as a suitable investor for the purpose of establishing exemptions from the registration or qualification provisions of the Securities Act and the securities laws of certain states for the offering and sale of the Securities.

(r) The undersigned is either a citizen of the United States of America (including an entity organized under the laws of any of the 50 states of the United States) or taxed as a resident of the United States of America for purposes of federal income tax.

(s) The undersigned represents and warrants that its investment was not directly or indirectly derived from illegal activities, including any activities that would violate United States Federal or State laws or any laws and regulations of other countries.

(t) The undersigned acknowledges that United States Federal law, regulations and Executive Orders administered by the U.S. Treasury Department's Office of Foreign Assets Control ("***OFAC***") prohibit the Company from, among other things, engaging in transactions with, and the provision of services to, persons on the list of Specially Designated Nationals and Blocked Persons and foreign countries and territories subject to U.S. sanctions administered by OFAC (together, the "OFAC Maintained Sanctions").

(u) The undersigned represents and warrants that neither the undersigned, nor any person controlling, controlled by, or under common control with, the undersigned, nor, to the best of the undersigned's knowledge, any person having a beneficial interest in the undersigned, or for whom the undersigned is acting as agent or nominee in connection with this investment, (i) is a country, territory, person or entity subject to an OFAC Maintained Sanction or (ii) is a foreign shell bank as that term is defined by the U.S. Treasury Department.

(v) The undersigned represents and warrants that, if it is an entity designated as a "financial institution" in the USA PATRIOT Act of 2001 (generally including banks, trust companies, thrift institutions, agencies or branches of foreign banks, investment bankers, broker-dealers, investment companies, insurance companies, investment advisers, futures commission merchants, commodity trading advisors, and commodity pool operators), it has implemented and enforces an anti-money laundering program ("***AMLP***") that is compliant with the USA PATRIOT Act of 2001 and that its AMLP, at a minimum:

- Maintains and enforces a customer identification program in accordance with applicable regulatory requirements under Section 326 of the USA PATRIOT Act of 2001;

- For each investor, client, customer, and principal, verifies and documents its investor, client, customer or principal nor any person that controls, is controlled by or is under common control with any investor, client, customer or principal (1) is a country, territory, person or entity subject to an OFAC Maintained Sanction, or (2) is a foreign shell bank as that term is defined by the U.S. Treasury Department;

- Includes reasonable internal procedures and controls to detect and report suspicious activities;
- Designates a compliance officer for anti-money laundering responsibilities;
- Provides on-going employee training with respect to anti-money laundering policies and procedures; and
- Includes an independent audit function to test its AMLP.

(w) The undersigned acknowledges and agrees that the Company, in complying with anti-money laundering statutes, regulations and goals, may file voluntarily and/or as required by law suspicious activity reports ("***SARs***") or any other information with governmental and law enforcement agencies that identify transactions and activities that the Company or its agents reasonably determine to be suspicious, or is otherwise required by law.

(x) The undersigned acknowledges that the Company is prohibited by law from disclosing to third parties, including the undersigned, any filing or the substance of any SAR.

(y) The undersigned confirms that all information and documentation provided to the Company, including, but not limited to, all information regarding the undersigned's identity, business, investment objectives, and source of the funds to be invested in the Company, is true and correct.

(z) The undersigned represents and warrants that he/she/it is [ ]/ is not [X] **(please check one)** a senior foreign political figure, or an immediate family member or close associate of a senior foreign political figure within the meaning of the USA PATRIOT Act of 2001 and that the undersigned is [ ]/ is not [X] **(please check one)** making an investment in the Company on behalf of such a person.

(aa) The undersigned acknowledges that the Company may not accept any investment from the undersigned if the undersigned cannot truthfully make the representations set forth in any of the preceding subsections.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the undersigned subscriber that the following statements are true and correct:

(a) Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation. The Company is duly qualified to do business, and is in good standing in the states required due to (a) the ownership or lease of real or personal property for use in the operation of the Company's business or (b) the nature of the business conducted by the Company except where failure to do so would not have a material adverse effect on the Company. The Company has all requisite power, right and authority to own, operate and lease its properties and assets, to carry on its business as now conducted, to execute, deliver and perform its obligations under this Subscription Agreement, the Note, the Warrant and the security agreement executed in connection with the Note (collectively, the "***Transaction Documents***"), and to carry out the transactions contemplated hereby and thereby. All actions on the part of the Company and its officers and directors necessary for the authorization, execution, delivery and performance of the Transaction Documents, the consummation of the transactions contemplated hereby and thereby, and the performance of all of the Company's obligations under Transaction Documents have been taken or will be taken prior to the closing. Each of the Transaction Documents have been duly executed and delivered by the Company, and each of the Transaction Documents constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency, moratorium and similar laws of general application relating to or affecting the enforcement of rights of creditors, and except as enforceability of the obligations hereunder are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or law).

(b) Issuance of Securities. The Securities to be issued to the undersigned investor pursuant to this Subscription Agreement and the Warrant, as applicable, when issued and delivered in accordance with the terms of this Subscription Agreement and the Warrant, as applicable, will be duly and validly issued and will be fully paid and non-assessable.

(c) Authorization; Enforcement. The execution, delivery and performance of the Transaction Documents by the Company, and the consummation of the transactions contemplated hereby and thereby, will not (a) constitute a violation (with or without the giving of notice or lapse of time, or both) of any provision of any law or any judgment, decree, order, regulation or rule of any court, agency or other governmental authority applicable to the Company or any of its Subsidiaries (as defined below), including, without limitation, the rules of the Principal Market (defined below), (b) require any consent, approval or authorization of, or declaration, filing or registration with, any person, including, without limitation, any shareholder of the Company and/or the Principal Market, (c) result in a default (with or without the giving of notice or lapse of time, or both) under, acceleration or termination of, or the creation in any party of the right to accelerate, terminate, modify or cancel, any agreement, lease, note or other restriction, encumbrance, obligation or liability to which the Company or any of its Subsidiaries is a party or by which it is bound or to which any assets of the Company or any of its Subsidiaries are subject, (d) result in the creation of any lien or encumbrance upon the assets of the Company or any of its Subsidiaries, or upon any shares of Common Stock, preferred stock or other securities of the Company or any of its Subsidiaries except for liens in favor of the holders of the Notes created by the Security Agreement, (e) conflict with or result in a breach of or constitute a default under any provision of the certificate of incorporation or bylaws of the Company or any of its Subsidiaries, or (f) invalidate or adversely affect any permit, license, authorization or status used in the conduct of the business of the Company and its Subsidiaries.

(d) SEC Filings. The Company is subject to, and in full compliance with, the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"). The Company has made available to each subscriber through the EDGAR system true and complete copies of the Company's filings for the prior two full fiscal years plus any interim period (collectively, the "***SEC Filings***"). Since December 31, 2013, the SEC Filings, when they were filed with the SEC (or, if any amendment with respect to any such document was filed, when such amendment was filed), complied in all material respects with the applicable requirements of the Exchange Act and the rules and regulations thereunder and did not, as of such date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. All reports and statements required to be filed by the Company under the Exchange Act have been filed, together with all exhibits required to be filed therewith. The Company and each of its direct and indirect subsidiaries, if any (collectively, the "***Subsidiaries***"), are engaged in all material respects only in the business described in the SEC Filings, and the SEC Filings contain a complete and accurate description in all material respects of the business of the Company and the Subsidiaries.

(e) No Financial Advisor. The Company acknowledges and agrees that each subscriber is acting solely in the capacity of an arm's length purchaser with respect to the Securities and the transactions contemplated hereby. The Company further acknowledges that the undersigned subscriber is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by any subscriber or any of its representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to such subscriber's purchase of the Securities. The Company further represents to each subscriber that the Company's decision to enter into this Subscription Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(f) Capitalization and Additional Issuances. The authorized and outstanding capital stock of the Company on a fully diluted basis as of the date of this Subscription Agreement are set forth in the Company's SEC Filings. Except as set forth in the Company's SEC Filings, there are no options, warrants, or rights to subscribe to, securities, rights, understandings or obligations convertible into or exchangeable for or giving any right to subscribe for any shares of capital stock or other equity interest of the Company or any of its subsidiaries. The only officer, director, employee and consultant stock option or stock incentive plan or similar plan currently in effect or contemplated by the Company are described in the Company's SEC Filings. There are no outstanding agreements or preemptive or similar rights affecting the Company's Common Stock.

(g) Private Placements. Assuming the accuracy of the subscriber's representations and warranties set forth in Section 2 of this Subscription Agreement, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the subscriber as contemplated hereby. None of the Company, its Subsidiaries or any of their affiliates, nor any Person (as defined below) acting on their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the issuance of any of the Securities under the Securities Act, whether through integration with prior offerings or otherwise, or caused this offering of the Securities (or any other offering of securities of the Company taken together with this transaction) to require approval of stockholders of the Company under any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of the Principal Market. None of the Company, its Subsidiaries, their affiliates nor any Person acting on their behalf will take any action or steps that would require registration of the issuance of any of the Securities under the Securities Act or cause the offering of any of the Securities to be integrated with other offerings of securities of the Company.

(h) Investment Company. The Company is not, and is not an affiliate of, and immediately after receipt of payment for the Securities will not be or be an affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(i) Shell Company Status. The Company is not and has never been an issuer identified in Rule 144(i)(1) of the Securities Act. The Company is, and has been for a period of at least three (3) years, subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act.

(j) Litigation. Except as set forth in the SEC Filings, there is no action, suit, proceeding, inquiry or investigation before or by the Principal Market, any court, public board, other Governmental Entity, self-regulatory organization or body pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, the Common Stock or any of the Company's or its Subsidiaries' officers or directors which is outside of the ordinary course of business or individually or in the aggregate material to the Company or any of its Subsidiaries. No director, officer or employee of the Company or any of its Subsidiaries has willfully violated 18 U.S.C. §1519 or engaged in spoliation in reasonable anticipation of litigation. Without limitation of the foregoing, there has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the SEC involving the Company, any of its Subsidiaries or any current or former director or officer of the Company or any of its Subsidiaries. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company under the Securities Act or the Exchange Act. "***Governmental Entity***" means any nation, state, county, city, town, village, district, or other political jurisdiction of any nature, federal, state, local, municipal, foreign, or other government, governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal), multi-national organization or body; or body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature or instrumentality of any of the foregoing, including any entity or enterprise owned or controlled by a government or a public international organization or any of the foregoing. "***Principal Market***" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market, the New York Stock Exchange, OTCQX, OTCQB, OTCPK or the OTC Bulletin Board (or any successors to any of the foregoing).

(k) Employee Relations. Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or employs any member of a union. The Company believes that its and its Subsidiaries' relations with their respective employees are good. The Company and its Subsidiaries are in compliance with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. "***Material Adverse Effect***" means any material adverse effect on (i) the business, properties, assets, liabilities, operations (including results thereof), condition (financial or otherwise) or prospects of the Company and its Subsidiaries, taken as a whole, (ii) the transactions contemplated hereby or (iii) the authority or ability of the Company or any of its Subsidiaries to perform any of their respective obligations under any of this Subscription Agreement, the Note or the Warrant.

(l) Tax Status. The Company and each of its Subsidiaries (i) has timely made or filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has timely paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company and its Subsidiaries know of no basis for any such claim. The Company is not operated in such a manner as to qualify as a passive foreign investment company, as defined in Section 1297 of the U.S. Internal Revenue Code of 1986, as amended.

(m) Indebtedness and Other Contracts. Except as set forth in the SEC Filings, neither the Company nor any of its Subsidiaries, (i) has any outstanding Indebtedness (as defined below), (ii) is a party to any contract, agreement or instrument, the violation of which, or default under which, by the other party(ies) to such contract, agreement or instrument could reasonably be expected to result in a Material Adverse Effect, (iii) is in violation of any term of, or in default under, any contract, agreement or instrument relating to any Indebtedness, or (iv) is a party to any contract, agreement or instrument relating to any Indebtedness, the performance of which, in the judgment of the Company's officers, has or is expected to have a Material Adverse Effect. For purposes of this Agreement: (x) "***Indebtedness***" of any Person means, without duplication (A) all indebtedness for borrowed money, (B) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (including, without limitation, "capital leases" in accordance with generally accepted accounting principles) (other than trade payables entered into in the ordinary course of business), (C) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (D) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses, (E) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property) required by US GAAP to be disclosed in the Company's financial statements, (F) all monetary obligations under any leasing or similar arrangement which, in connection with generally accepted accounting principles, consistently applied for the periods covered thereby, is classified as a capital lease, (G) all indebtedness referred to in clauses (A) through (F) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, claim, lien, tax, right of first refusal, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by any Person, even though the Person which owns such assets or property has not assumed or become liable for the payment of such indebtedness, and (H) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (A) through (G) above; (y) "***Contingent Obligation***" means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; and (z) "***Person***" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and any Governmental Entity or any department or agency thereof.

(n) No Undisclosed Events, Liabilities, Developments or Circumstances. Except as set forth in the SEC Filings and except for the transactions contemplated hereby, no event, liability, development or circumstance has occurred or exists, or is reasonably expected to exist or occur with respect to the Company, any of its Subsidiaries or any of their respective businesses, properties, liabilities, prospects, operations (including results thereof) or condition (financial or otherwise), that (i) would be required to be disclosed by the Company under applicable securities laws on a registration statement on Form S-1 filed with the SEC relating to an issuance and sale by the Company of its Common Stock and which has not been publicly announced, (ii) could have a material adverse effect on any subscriber's investment hereunder or (iii) would reasonably be expected to have a Material Adverse Effect.

(o) No Disqualification Events. To the Company's knowledge, none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering contemplated hereby, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, calculated on the basis of voting power, nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an "***Issuer Covered Person***") is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "***Disqualification Event***"), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event.

(p) General Solicitation. None of the Company, any of its affiliates (as defined in Rule 501(b) under the Securities Act) or any person acting on behalf of the Company or such affiliate will solicit any offer to buy or offer or sell the Securities by means of any form of general solicitation or general advertising within the meaning of Regulation D, including: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over television or radio; and (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

(q) Application of Takeover Protections; Rights Agreement. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, interested stockholder, business combination, poison pill (including, without limitation, any distribution under a rights agreement), stockholder rights plan or other similar anti-takeover provision under its certificate of incorporation, bylaws or other organizational documents or the laws of the jurisdiction of its incorporation or otherwise which is or could become applicable to the undersigned subscriber as a result of the transactions contemplated by the Transaction Documents, including, without limitation, the Company's issuance of the Securities and any subscriber's ownership of the Securities. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any stockholder rights plan or similar arrangement relating to accumulations of beneficial ownership of shares of Common Stock or a change in control of the Company or any of its Subsidiaries. No claim will be made or enforced by the Company or, to the knowledge of the Company, any other person that any subscriber is an "Acquiring Person" under any shareholder rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any subscriber could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under this Subscription Agreement or the Warrant or under any other agreement between the Company and any subscriber.

4. SUBSCRIPTION PROCEDURES

The Company shall have the right to accept or reject this subscription, in whole or in part, and this subscription shall be deemed to be accepted by the Company only when a copy of the signature page of this Subscription Agreement is executed by the Company. A prospective Subscriber will only own any Note and become the holder of a Warrant therein upon acceptance of the Subscription Agreement. A minimum investment (lending commitment) of $500,000 is required. Subscriptions need not be accepted in the order received by the Company. The undersigned understands and agrees that this subscription may be accepted or rejected by the Company, in whole or in part in its sole and absolute discretion, and if accepted, the Securities purchased pursuant hereto will be issued only in the name of the undersigned. The undersigned hereby acknowledges and agrees that, except as otherwise provided by applicable state law, this Subscription Agreement may not be canceled, revoked or withdrawn, and that this Subscription Agreement and the documents submitted herewith shall survive (i) changes in the transactions, documents and instruments that are not material, and (ii) death or disability of the undersigned.

5. INDEMNIFICATION

The Company will indemnify and hold harmless each subscriber and, where applicable, its directors, officers, employees, agents, advisors, affiliates and shareholders (each, an "***Indemnitee***", from and against any and all loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any claim, lawsuit, administrative proceeding or investigation whether commenced or threatened) (the "***Indemnified Liabilities***"), incurred by any Indemnitee as a result of, or arising out of, or relating to (i) any misrepresentation or breach of any representation or warranty made by the Company in any of the Transaction Documents, (ii) any breach of any covenant, agreement or obligation of the Company contained in any of the Transaction Documents or (iii) any cause of action, suit, proceeding or claim brought or made against such Indemnitee by a third party (including for these purposes a derivative action brought on behalf of the Company or any Subsidiary) or which otherwise involves such Indemnitee that arises out of or results from (A) the execution, delivery, performance or enforcement of the Transaction Documents, (B) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of the issuance of the Securities, or (C) the status of such subscriber or holder of the Securities either as an investor in the Company pursuant to the transactions contemplated hereby or as a party to the Transaction Documents (including, without limitation, as a party in interest or otherwise in any action or proceeding for injunctive or other equitable relief). To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. The amount of any Indemnified Liability shall be net of (i) any amounts recovered by the Indemnitee in respect of such Indemnified Liability pursuant to any indemnification by or indemnification agreement with any third party (net of any costs of recovery), (ii) any insurance proceeds actually received by the Indemnity in respect of the Indemnified Liability (net of any deductible amounts or associated incremental premiums that the Indemnitee reasonably expects to incur as a result of the claim) and (iii) any tax benefit to the Indemnitee, to the extent such tax benefit relates solely to such Indemnified Liability. Notwithstanding anything contained herein to the contrary, an Indemnitee shall not be required to seek to recover any amounts, proceeds or benefits referred to in the immediately preceding sentence as a condition precedent to seeking indemnification from the Company pursuant to this Section 5.

6. RESTRICTIONS OF TRANSFER

(a) Legends. The subscriber understands that the Securities have been issued (or will be issued in the case of the Warrant Shares) pursuant to an exemption from registration or qualification under the Securities Act and applicable state securities laws, and except as set forth in Section 6(b) below, the Securities shall bear any legend as required by the "blue sky" laws of any state and a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such stock certificates):

> NEITHER THIS SECURITY NOR THE SECURITIES UNDERLYING THIS SECURITY HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

(b) Removal of Legends. Certificates evidencing Securities shall not be required to contain the legend set forth in Section 6(a) above or any other legend (i) while a registration statement covering the resale of such Securities is effective under the Securities Act, (ii) following any sale of such Securities pursuant to Rule 144 under the Securities Act (assuming the transferor is not an affiliate of the Company), (iii) if such Securities are eligible to be sold, assigned or transferred under Rule 144 under the Securities Act (provided that the Investor provides the Company with reasonable assurances that such Securities are eligible for sale, assignment or transfer under Rule 144 which shall not include an opinion of counsel), (iv) in connection with a sale, assignment or other transfer (other than under Rule 144), provided that such subscriber provides the Company with an opinion of counsel to such subscriber, in a generally acceptable form, to the effect that such sale, assignment or transfer of the Securities may be made without registration under the applicable requirements of the Securities Act or (v) if such legend is not required under applicable requirements of the Securities Act (including, without limitation, controlling judicial interpretations and pronouncements issued by the SEC). If a legend is not required pursuant to the foregoing, the Company shall no later than three (3) Business Days following the delivery by the subscriber to the Company or the transfer agent (with notice to the Company) of a legended certificate representing such Securities (endorsed or with stock powers attached, signatures guaranteed, and otherwise in form necessary to affect the reissuance and/or transfer, if applicable), as directed by such subscriber, either: (A) provided that the Company's transfer agent is participating in the DTC Fast Automated Securities Transfer Program and such Securities are Warrant Shares, credit the aggregate number of shares of Common Stock to which such subscriber shall be entitled to such subscriber's or its designee's balance account with DTC through its Deposit/Withdrawal at Custodian system or (B) if the Company's transfer agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and deliver at the Company's expense (via reputable overnight courier) to such subscriber, a certificate representing such Securities that is free from all restrictive and other legends, registered in the name of such subscriber or its designee (the date by which such credit is so required to be made to the balance account of such subscriber's or such subscriber's nominee with DTC or such certificate is required to be delivered to such subscriber pursuant to the foregoing is referred to herein as the "***Required Delivery Date***"). If the Company fails to (i) issue and deliver (or cause to be delivered) to the subscriber by the Required Delivery Date a certificate representing Warrant Shares so delivered to the Company by such subscriber that is free from all restrictive and other legends or (ii) credit the balance account of such subscriber's or such subscriber's nominee with DTC for such number of Warrant Shares so delivered to the Company, and if after such date the subscriber is required to effect a Buy-In (as defined in the Warrant), then, in addition to all other remedies available to such subscriber, the Company shall pay in cash to such subscriber the amount set forth in Section 2(d)(iv) of the Warrant.

7. SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER

The undersigned, under penalties of perjury, certifies that the taxpayer identification number or Social Security number shown hereon is true and correct and that the undersigned is not subject to any withholding either because the undersigned has not been notified that the undersigned is subject to backup withholding as a result of failure to report all interest or dividends or because the Internal Revenue Service has notified the undersigned that the undersigned is no longer subject to backup withholding.

8. FURTHER COVENANTS

(a) Securities Laws Disclosure; Publicity. If required under the Exchange Act, the Company shall within four (4) Business Days after this Subscription Agreement has been executed, file a Current Report on Form 8-K with the SEC, including the Transaction Documents as exhibits thereto (the "***8-K Filing***"). From and after the filing of the 8-K Filing, the Company shall have publicly disclosed all material, non-public information delivered to any of the subscribers by the Company or any of its Subsidiaries, or any of their respective officers, directors, employees or agents. No subscriber shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, which consent shall not unreasonably be withheld.

(b) Integration. The Company shall not, and shall use its best efforts to ensure that no affiliate of the Company shall, after the date hereof, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security other than additional notes and warrants issued hereunder that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the subscribers.

(c) Reservation of Securities. The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Warrant in such amount as may be required to fulfill its obligations in full under the Warrant. In the event that at any time the then authorized shares of Common Stock are insufficient for the Company to satisfy its obligations in full under the Warrant, the Company shall promptly take such actions as may be required to increase the number of authorized shares.

(d) Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated hereby, the Company covenants and agrees that neither it, nor any other Person acting on its behalf will provide any subscriber or its agents or counsel with any information that the Company believes constitutes material non-public information. The Company understands and confirms that each subscriber shall be relying on the foregoing covenant in effecting transactions in securities of the Company. In addition, effective upon the filing of the 8-K Filing, the Company acknowledges and agrees that any and all confidentiality or similar obligations under any agreement, whether written or oral, between the Company, any of its Subsidiaries or any of their respective officers, directors, affiliates, employees or agents, on the one hand, and the subscriber or any of its affiliates, on the other hand, shall terminate.

(e) Accounts and Records; Inspections. The Company shall keep true records and books of account in which full, true and correct entries will be made of all dealings or transactions in relation to the business and affairs of the Company and its subsidiaries in accordance with GAAP applied on a consistent basis. The Company shall permit each holder of any Securities or any of such holder's officers, employees or representatives during regular business hours of the Company, upon reasonable notice and as often as such holder may reasonably request, to visit and inspect the offices and properties of the Company and its subsidiaries and to make extracts or copies of the books, accounts and records of the Company or its subsidiaries at such holder's expense. Nothing contained in this Section shall be construed to limit any rights which a holder of any Securities may otherwise have with respect to the books and records of the Company and its Subsidiaries, to inspect its properties or to discuss its affairs, finances and accounts.

9. GENERAL PROVISIONS

(a) This Subscription Agreement will be governed by and construed in accordance with the substantive laws of the State of Delaware without regard thereof relating to conflicts of laws.

(b) This Subscription Agreement, together with the Note, the Security Agreement and the Warrant constitutes the entire agreement between the parties with respect to the subject matter and supersedes any prior agreements between the parties. This Subscription Agreement may be amended only by a writing executed by the parties.

(c) The Note or Warrant will be assigned or transferred only in accordance with applicable law and the terms of this Subscription Agreement and the Note or Warrant, as the case may be.

(d) This Subscription Agreement will survive the undersigned's death or dissolution and will be binding upon the undersigned's successors, heirs, assignees, representatives and distributees.

(e) If any provision of this Subscription Agreement is invalid or unenforceable under any applicable law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified only to the extent necessary to conform to such applicable law. Any provision hereof that may be held invalid or unenforceable under any applicable law shall not affect the validity or enforceability of any other provisions hereof, and to this extent the provisions hereof shall be severable.

(f) The parties' representations and warranties in the Transaction Documents shall survive the execution and delivery of such Transaction Documents.

(g) Within five days after receipt of a request from the Company, the undersigned hereby agrees to provide such reasonable information and to execute and deliver such documents as may be reasonably necessary to comply with any and all laws to which the Company is subject.

(h) The Company shall reimburse the reasonable, documented legal fees incurred by the Subscribers in preparing and negotiating the Transaction Documents; provided that, in no event shall the Company reimburse more than $10,000 in the aggregate.

10. SUBSCRIPTION

The undersigned hereby subscribes for a Five Hundred Thousand Dollar ($500,000) Note to be issued by the Company, the Warrant and 17,000 Warrant Shares. The undersigned understands that this subscription is and shall be irrevocable after passage of any right of rescission required by applicable state law.

1. The Subscriber is [ ]/ is not [X] *please check as appropriate)* a **"benefit plan investor."**

A "benefit plan investor" is a plan described in 19 C.F.R. Section 2510.3-101(f)(2) issued by the United States Department of Labor *i.e.,* any employee benefit plan, whether or not subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other plan subject to the prohibited transaction provisions of Section 4975 of the **Internal Revenue** Code of 1986, as amended ("Code")) or an entity whose assets are deemed "plan assets" for purposes of Title I of ERISA and Section 4975 of the code.

If the Subscriber is a benefit plan investor (a "Plan"), it is so because it is **(please check as appropriate):**

[ ] an employee benefit plan within the meaning of and subject to Title I or ERISA (an "ERISA Plan"); or

[ ] an entity whose assets are deemed to constitute "plan assets" for purposes of Title I of ERISA and Section 4975 of the Code (also an "ERISA Plan").

2. The Subscriber is [ ]/ is not [X] (please check as appropriate) exempt from U.S. federal income tax under the Code. **If the Subscriber is tax-exempt, please attach to this Agreement a copy of the Determination Letter from the Internal Revenue Service regarding the Subscriber's tax-exempt status.**

3. The Subscriber is [ ]/ is not [X] (please check as appropriate) a "**venture capital operating company**" as such term is defined in 29 CFR Section 2510.3-101.

4. Does the undersigned grant permission to the Company to identify the undersigned by name as an investor in the Company to prospective investors in the Company.

[X] Yes

[ ] No

The undersigned represents that the undersigned has read this Subscription Agreement.

The wire instructions in connection with the subscription for the Note are as follows:

Bank:

ABA #:

Account Name:

Account #:

(***The remainder of this page is intentionally left blank)***

IN WITNESS WHEREOF, the Company has executed this Subscription Agreement as of the 11th day of December, 2015, at _____, _____.
(City) (State)

COMPANY:

PROPHASE LABS, INC.

By: */s/ Ted Karkus*
Name: Ted Karkus
Title: Chief Executive Officer

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the _____ day of _____, 201_, at _____, _____.
(City) (State)

BUSINESS ENTITIES

_____
Name of Business Entity

TIN _____

By: _____

Name: _____

Title: _____

_____
State of Organization

_____
Business Address

_____
Telephone Number

_____
Facsimile Number

_____
E-mail Address

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the _____ day of _____, 201_, at _____, _____.
(City) (State)

TRUSTS OR PLANS

_____
Name of Trust or Plan

TIN _____

By: _____

Name: _____

Title: _____

_____
State of Formation, if applicable

_____
Plan Address

_____
Telephone Number

_____
Facsimile Number

_____
E-mail Address

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement as of the 11th day of December, 2015, at _____, _____.

(City) (State)

INDIVIDUALS

/s/ Justin J. Leonard	
Signature of Prospective Investor	Signature of Co-Owner or Spouse (if applicable)
SSN:	SSN:
Typed or printed FULL Name of Prospective Investor	Typed or Printed FULL name of Co-Owner or Spouse (if applicable)
State of Residence	State of Residence
Employer	Employer
Occupation	Occupation
Business/Home Address	Business/Home Address
Facsimile Number	Facsimile Number
E-mail Address	E-mail Address

Send correspondence to

_____ Home _____ Office

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR UNDER ANY APPLICABLE STATE SECURITIES LAWS AND HAS NOT OTHERWISE QUALIFIED FOR SALE IN RELIANCE UPON EXCEPTIONS FROM THE REQUIREMENTS OF THE SECURITIES ACT AND STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED OTHER THAN PURSUANT TO THE PROVISIONS OF THE SECURITIES ACT AND STATE SECURITIES LAWS OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE TRANSFER HEREOF IS SUBJECT TO COMPLIANCE WITH THE CONDITIONS SPECIFIED HEREIN AND NO TRANSFER SHALL BE VALID OR EFFECTIVE, NOR SHALL THE OBLIGOR (DEFINED BELOW) OR ITS TRANSFER AGENT BE REQUIRED TO TRANSFER SUCH NOTE OF RECORD, UNLESS AND UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED.

12% SECURED PROMISSORY NOTE – SERIES A

December 11, 2015 [ ]

FOR VALUE RECEIVED, the undersigned, ProPhase Labs, Inc., a Delaware corporation ("***ProPhase***"), Pharmaloz Manufacturing Inc., a Delaware corporation ("***Pharmaloz***"), and Quigley Pharma Inc., a Delaware corporation ("***Quigley***", together with ProPhase, and Pharmaloz, individually and collectively, the "***Obligor***"), jointly and severally hereby promises to pay to the order of [ ] ("***Holder***") at such place as Holder may from time to time direct, in lawful money of the United States, the principal sum of [ ]( ) (the "***Principal Amount***"), plus interest accrued on the unpaid Principal Amount (the "***Accrued Interest***") at a rate equal to twelve percent (12%) per annum (the "***Interest Rate***"), calculated from the date hereof on a basis of a 365 day year but computed for the actual number of days elapsed, in the amounts, at the times, in the manner and subject to the terms and conditions as provided below. As additional consideration for this Note, Obligor is concurrently issuing Holder a warrant for the purchase of Common Stock of ProPhase (the "***Warrant***") as further described in the Subscription Agreement dated as of December 11, 2015, by and between the Obligor and the Holder (the "***Subscription Agreement***"). From and after the occurrence of an Event of Default under this Note (including the failure of the Obligor to pay all amounts outstanding under this Note on the Maturity Date), and so long as such Event of Default shall continue in effect, the outstanding Principal Amount of this Note shall bear interest at a rate equal to fifteen (15%) per annum ("***Default Interest***").

This Note is one of a series of 12% Promissory Notes –Series A of the Obligor in the aggregate amount of up to $3,000,000 (collectively, the "***Series A Notes***"). Obligor is also issuing warrants in form substantially similar to the Warrant to the other holders of Series A Notes (such warrants, together with the Warrant, the " ***Warrant***s"). The Series A Notes shall be pari passu with respect to each other and all payments to the Holders under the Series A Notes shall be made pro rata among the Holders based on the aggregate unpaid Principal Amount and Accrued Interest of the Series A Note(s) held by the Holders. If Holder obtains any payment (whether voluntary, involuntary, by application of offset or otherwise) of principal, interest, premium or other amount with respect to this Note in excess of Holder's pro rata share of such payments obtained by all of the Holders, then, by acceptance of this Note, Holder agrees to distribute to the other Holders an amount sufficient to cause all of the Holders to receive their respective pro rata share of any payment of principal, interest, premium or other amount with respect to the Series A Notes.

The obligations of Obligor under this Note, as well as under the other Series A Notes, are secured by a first priority perfected security interest in the Collateral, as such term is defined in that certain Security Agreement, dated as of even date herewith, executed by the Obligor in favor of [ ], as collateral agent for the secured parties referred to therein (the "***Collateral Agent***"). Holder hereby appoints [ ], as Collateral Agent to hold the security granted under the Security Agreement for the benefit of Holder and such other holders, and authorizes the Collateral Agent to take all actions and exercise all rights with respect to the Collateral under the Security Agreement on Holder's behalf, without the requirement of receiving consent from Holder upon the Collateral Agent's receipt of consent and authorization from any combination of the Holders who or which, collectively, represent a majority (more than 50%) of the principal outstanding under all of the Series A Notes (collectively, the "***Requisite Holder(s)***"), provided that Collateral Agent delivers written notice to Holder (email shall suffice) at least five (5) days prior to the taking of any such action or the exercise of any such right, except that Collateral Agent shall not, without Holder's prior written consent (i) exercise any such rights as to Holder which would increase or decrease the Principal Amount of or Accrued Interest under this Note or the rate of interest payable hereunder; or (ii) exercise any such rights as to Holder unless the exercise thereof applies to all of the Holders in the same relative fashion.

1. Payments of Principal and Interest.

(a) Obligor will pay Holder interest on the unpaid principal balance of this Note at the Interest Rate in semi-annual installments commencing on June 15, 2016, and continuing on December 14, 2016 and June 15, 2017.

(b) Obligor will pay Holder the Principal Amount in full on June 15, 2017 (the "***Maturity Date***").

(c) The Principal Amount, together with all unpaid Accrued Interest thereon, may be prepaid by Obligor in whole or in part, at any time and from time to time with no penalty. Any such prepayment shall be accompanied by all unpaid Accrued Interest on the principal amount so prepaid.

(d) Obligor will pay Holder Default Interest (if applicable) upon demand by Holder.

(e) Upon the payment in full of all amounts owing under this Note, (i) Holder shall deliver this Note to Obligor for cancellation (or Holder shall deliver an indemnity agreement reasonably satisfactory to Obligor), (ii) all security interests granted under the Security Agreement shall be automatically terminated and liens and security interests released as set forth in the Security Agreement.

2. Events of Default and Remedies. Each of the following events shall constitute an event of default (an "***Event of Default***") under this Note:

(a) Obligor shall have defaulted in the payment of all or any part of the Accrued Interest or the Principal Amount due under or pursuant to this Note or any other Series A Note as and when the same shall become due and payable, and such default shall have continued for five (5) days after the date such payment was due;

(b) Any Obligor, pursuant to or within the meaning of Title 11, U.S. Code or any similar federal or state law for the relief of debtors (collectively, "***Bankruptcy Law***") shall have (i) commenced a voluntary case or proceeding, (ii) consented to the entry of an order for relief against it in an involuntary case or proceeding, (iii) consented to the appointment of a custodian of it or for all or substantially all of its property, (iv) made a general assignment for the benefit of its creditors or (v) admitted in writing its inability generally to pay its debts as the same become due;

(c) a court of competent jurisdiction shall have entered an order or decree under any Bankruptcy Law that: (i) is for relief against any Obligor in an involuntary case, (ii) appoints a custodian of any Obligor or for all or substantially all of the property of any Obligor or (iii) orders the liquidation of any Obligor, and in any such case such order or decree shall not have been withdrawn, dismissed or stayed for sixty (60) days;

(d) Any Obligor shall have defaulted with respect to the payment of any indebtedness other than the Series A Notes in an aggregate amount of in excess of [ ] ( ), or any other event of default shall have occurred under any such indebtedness, which default has resulted in the acceleration of such indebtedness and such indebtedness shall not have been paid, or such acceleration rescinded, within forty-five (45) days from the date of such default;

(e) the institution by any Obligor of any liquidation, dissolution or winding up of the affairs of Obligor without sufficient reserves to redeem this Note in accordance with its terms prior to such event;

(f) If at any time while this Note is outstanding, (i) any Obligor, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Obligor with or into another person, (ii) any Obligor, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Obligor or another person) is completed pursuant to which holders of Common Stock of ProPhase ("***Common Stock***") are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) ProPhase, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, (v) ProPhase, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person whereby such other person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination. Notwithstanding the foregoing, nothing herein shall restrict or prohibit ProPhase and the Obligors from implementing an internal corporate restructuring, including by merger, consolidation, transfer of assets, or otherwise.

If an Event of Default shall have occurred and be continuing, Requisite Holder(s), by notice in writing to Obligor and to the Collateral Agent (the "***Acceleration Notice***"), may declare the unpaid Principal Amount hereunder and all unpaid Accrued Interest hereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; *provided*, *however*, that, if an Event of Default specified in Section 2(b) or 2(c) above shall have occurred, the unpaid Principal Amount hereunder and all Accrued Interest hereon shall become and be immediately due and payable without any declaration or other act on the part of the Requisite Holders.

If any Event of Default shall have occurred, Obligor shall reimburse Holder, on demand, for any and all reasonable costs and expenses, including reasonable documented attorneys' fees and court costs, incurred by Holder in collecting or otherwise enforcing this Note.

3. Powers and Remedies Cumulative; Delay or Omission Not Waiver of Default. No right or remedy herein conferred upon or reserved to Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. Except as otherwise provided by law, the assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No delay or omission of Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and except as otherwise provided by law, every power and remedy given by this Note or by law may be exercised from time to time, and as often as shall be deemed expedient, by Holder.

4. Modification of Note. This Note may not be amended or otherwise modified except as provided in writing signed by Obligor and Holder.

5. Notices. Any notice, request, demand or other communication pursuant to this Note by Obligor or by Holder shall be in writing and shall be delivered by hand, sent via certified or registered mail (return receipt requested), or sent by any commercial express delivery or courier service (with receipt), effective upon delivery in person, or, if mailed, on the first day after the date of mailing, addressed as follows:

If to Obligor: ProPhase Labs, Inc.
621 N. Shady Retreat Road
Doylestown, PA 18901
Attn: Robert V. Cuddihy, Jr.
215-345-0919 Ext. 139

If to Holder: At Holder's address appearing at the end of Holder's Subscription Agreement for this Note, or as otherwise previously indicated by Holder in writing addressed to the Chief Operating Officer of Obligor.

6. Waiver of Notices; Construction. To the fullest extent permitted by law, Obligor hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note and assents to extensions of the time of payment or forbearance or other indulgence without notice. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. Restrictions on Negotiability and Transfer.

(a) This Note and the other Series A Notes have not been registered under the Securities Act or qualified under any applicable state securities or "blue sky" law. This Note may not be offered, sold or otherwise transferred unless registered and qualified pursuant to the provisions of the Act and such "blue sky" laws, or unless an exemption from registration and qualification is available.

(b) By acceptance hereof, Holder agrees, prior to any transfer or attempted transfer of this Note (other than a transfer to Obligor), to give written notice to Obligor of the Holder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in reasonable detail.

(c) By receipt hereof, Holder hereby acknowledges and agrees that: (i) Holder is holding this Note for Holder's own account and without any present view towards the transfer, resale or other distribution thereof; (ii) Holder has been advised and is aware that there is no public market for this Note or the Warrant and it is not likely that any public market for this Note will develop; and (iii) this Note is subject to the restrictions on transfer set forth herein.

(d) Obligor may not assign its rights or obligations under this Note without the prior written consent of the Holder.

8. Loss, Theft, Destruction or Mutilation. Upon receipt by Obligor of reasonable evidence satisfactory to counsel to Obligor of ownership of and the loss, theft, destruction or mutilation of this Note and (in the case of loss, theft or destruction) of reasonable indemnity and (in the case of mutilation) upon surrender and cancellation hereof, Obligor will execute and deliver, in lieu hereof, a new Note of like tenor.

9. Governing Law and Jurisdiction. This Note shall take effect as a sealed instrument and shall be construed in accordance with and governed by the laws of the State of Delaware, without reference to its conflicts of law provisions. In any legal proceeding involving, directly or indirectly, any matter arising out of or related to this Note or the relationship evidenced hereby, Obligor and Holder hereby irrevocably submit to the exclusive jurisdiction of the court of common pleas of Bucks County, Pennsylvania and the United States District Court for the Eastern District of Pennsylvania. Obligor and Holder expressly submit and consent in advance to such jurisdiction in any action or suit commenced in any such court, and Obligor and Holder hereby waive any objection which they may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens.

10. Waiver of Jury Trial. EACH OF OBLIGOR AND HOLDER WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS NOTE OR RELATING THERETO OR ARISING FROM THE RELATIONSHIP WHICH IS THE SUBJECT OF THIS NOTE AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

11. No Rights as Stockholder. This Note does not by itself entitle Holder to any voting or informational rights or other rights as a stockholder of Obligor. In the absence of the exercise of the Warrant, no provision of this Note and no enumeration herein of the rights or privileges of Holder shall cause Holder to be a stockholder of Obligor for any purpose.

12. Headings. The descriptive headings of the several sections of this Note are inserted for convenience only and do not constitute a part of this Note.

13. Miscellaneous. The terms and provisions of this Note are severable, and if any term or provision shall be determined to be superseded, illegal, invalid or otherwise unenforceable in whole or in part pursuant to applicable law by a governmental authority having jurisdiction, that determination shall not in any manner impair or otherwise affect the validity, legality or enforceability of that term or provision in any other jurisdiction or any of the remaining terms and provisions of this Note in any jurisdiction. This Note, together with the Security Agreement, the Subscription Agreement and the Warrant constitutes the entire agreement with respect to the subject matter hereof and supersedes all other prior or contemporaneous agreements and understandings, both written and oral, with respect to such subject matter. This Note shall be binding upon and enforceable against Obligor and Obligor's permitted successors and assigns and shall inure to the benefit of and be enforceable by Holder and Holder's heirs, beneficiaries, executors, legal representatives, successors and permitted assigns. This Note is not intended to confer any rights or remedies hereunder upon any Person other than Holder and Holder's heirs, beneficiaries, executors, legal representatives, successors and permitted assigns. If any payment on this Note becomes due and payable on a Saturday, Sunday or other day on which commercial banks in Delaware are authorized or required by Delaware State law to close, such payment date shall be extended to the next succeeding business day.

[Signature Page Follows]

IN WITNESS WHEREOF, Obligor has caused this instrument to be duly executed and delivered by its authorized officer as of the date first set forth above.

PROPHASE LABS, INC.

By: _____
Ted Karkus, CEO

PHARMALOZ MANUFACTURING INC.,

By: _____
Name:
Title:

QUIGLEY PHARMA INC.,

By: _____
Name:
Title:

Accepted and Agreed to:

_____
Name:

NEITHER THIS SECURITY NOR THE SECURITIES UNDERLYING THIS SECURITY HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

WARRANT NO. 2015-[___]

PROPHASE LABS, INC.

Warrant Shares: [ ] Issuance Date: December 11, 2015

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, John E. Ligums, Jr. (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after December 11, 2015 (the "Issuance Date") and on or prior to the close of business on the third anniversary of the Issuance Date (the "Termination Date") but not thereafter, to subscribe for and purchase from ProPhase Labs, Inc., a Delaware corporation (the "Company"), up to [ ] shares (the "Warrant Shares") of Common Stock. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Subscription Agreement (the "Agreement"), dated December 11, 2015, between the Company and the Holder. Provided notwithstanding the forgoing, for purposes of this Warrant, the following terms shall have the following meanings:

(a) "Business Day" means any day on which the Principal Market is open for trading including any day on which the Principal Market is open for trading for a period of time less than the customary time.

(b) "Common Stock" means the common stock, par value $0.0005 per share, of the Company.

(c) "Principal Market" means The NASDAQ Global Market; provided, however, that in the event the Common Stock is ever not listed or traded on The NASDAQ Global Market and is listed or traded on The NASDAQ Capital Market, The NASDAQ Global Select Market, the New York Stock Exchange, the NYSE MKT, the NYSE Arca or the OTC Bulletin Board (it being understood that as used herein "OTC Bulletin Board" shall also mean any successor or comparable market quotation system or exchange to the OTC Bulletin Board such as the OTCQB operated by the OTC Markets Group, Inc.), then the "Principal Market" shall mean such other market or exchange on which the Common Stock is then listed or traded.

(c) "Transfer Agent" means American Stock Transfer and Trust Company, or such other Person who is then serving as the transfer agent for the Company in respect of the Common Stock.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Issuance Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto; and, within three (3) Business Days of the date said Notice of Exercise is delivered to the Company, the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank or, if available, pursuant to the cashless exercise procedure specified in Section 2(c) below. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Business Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within one (1) Business Day of receipt of such notice. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be $[_____], subject to adjustment hereunder (the 'Exercise Price").

c) Cashless Exercise. At the Holder's sole discretion this Warrant may be exercised, in whole or in part, at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Business Day immediately preceding the date on which Holder elects to exercise this Warrant by means of a "cashless exercise," as set forth in the applicable Notice of Exercise;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on the Principal Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Principal Market as reported by Bloomberg L.P. (based on a Business Day from 9:30 a.m. (Eastern Standard Time to 4:02 p.m. (Eastern Standard Time), (b) if the OTC Bulletin Board is not a Principal Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board, (c) if the Common Stock is not then listed or quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holder and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Mechanics of Exercise.

i. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the Transfer Agent to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit/Withdrawal at Custodian ("DWAC") system if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by Holder or (B) this Warrant is being exercised via cashless exercise, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise by the date that is three (3) Business Days after the latest of (A) the delivery to the Company of the Notice of Exercise Form, (B) surrender of this Warrant (if required) and (C) payment of the aggregate Exercise Price as set forth above (including by cashless exercise, if permitted) (such date, the "Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the first date on which all of the foregoing have been delivered to the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder a certificate or the certificates representing the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then, the Holder will have the right to rescind such exercise.

iv. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit to the Holder a certificate or the certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

vi. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vii. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

e) Holder's Exercise Limitations. Notwithstanding anything to the contrary contained in this Warrant, this Warrant shall not be exercisable by the Holder hereof to the extent (but only to the extent) that the Holder or any of its affiliates would beneficially own in excess of 4.99% (the "Maximum Percentage") of the Common Stock. To the extent the above limitation applies, the determination of whether this Warrant shall be exercisable (vis-à-vis other convertible, exercisable or exchangeable securities owned by the Holder or any of its affiliates) and of which such securities shall be exercisable (as among all such securities owned by the Holder) shall, subject to such Maximum Percentage limitation, be determined on the basis of the first submission to the Company for conversion, exercise or exchange (as the case may be). No prior inability to exercise this Warrant pursuant to this paragraph shall have any effect on the applicability of the provisions of this paragraph with respect to any subsequent determination of exercisability. For the purposes of this paragraph, beneficial ownership and all determinations and calculations (including, without limitation, with respect to calculations of percentage ownership) shall be determined in accordance with Section 13(d) of the Exchange Act, and the rules and regulations promulgated thereunder. The provisions of this paragraph shall be implemented in a manner otherwise than in strict conformity with the terms of this paragraph to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Maximum Percentage beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such Maximum Percentage limitation. The limitations contained in this paragraph shall apply to a successor Holder of this Warrant. The holders of Common Stock shall be third party beneficiaries of this paragraph and the Company may not amend or waive this paragraph without the consent of holders of a majority of its Common Stock. For any reason at any time, upon the written or oral request of the Holder, the Company shall within one (1) Business Day confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding, including by virtue of any prior conversion or exercise of convertible or exercisable securities into Common Stock, including, without limitation, pursuant to this Warrant. At any time the Holder may increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% as specified in a written notice by the Holder to the Company; provided that any such increase will not be effective until the 61st day after such notice is delivered to the Company. For purposes of the Warrant, "Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Exchange Act.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. If the Company, at any time while the Warrant is outstanding, shall issue rights, options or warrants to all holders of Common Stock (and not to the Holders) entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the VWAP on the record date mentioned below, then, the Exercise Price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights, options or warrants plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights, options or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered (assuming receipt by the Company in full of all consideration payable upon exercise of such rights, options or warrants) would purchase at such VWAP. Such adjustment shall be made whenever such rights, options or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options or warrants.

c) Pro Rata Distributions. If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (and not to the Holders) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock, then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(e) on the exercise of this Warrant), the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(e) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section 3(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Warrant, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction). Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the other Transaction Documents with the same effect as if such Successor Entity had been named as the Company herein.

e) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

f) Voluntary Adjustment By Company . The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

g) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of its subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part (such partial transfer not less than 5,000 Warrant Shares), upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the Issuance Date set forth on the first page of this Warrant and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i).

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares. The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Principal Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant. Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies. Without limiting any other provision of this Warrant or the Agreement, if the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

m) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

****

(Signature Pages Follow)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

PROPHASE LABS, INC.

By: _____
Name:
Title:

NOTICE OF EXERCISE

TO: **PROPHASE LABS, INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

[SIGNATURE OF HOLDER]

Name of Investing Entity:

Signature of Authorized Signatory of Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the **"Security Agreement"**), dated as of the 11th day of December, 2015, is made by and among PROPHASE LABS, INC., a Delaware corporation, PHARMALOZ MANUFACTURING INC., a Delaware corporation, and QUIGLEY PHARMA INC., a Delaware corporation, each with an address of 621 N. Shady Retreat Road, Doylestown PA 18901 (each an **"Obligor"** and collectively, the "**Obligors**"), and John E. Ligums, Jr., as collateral agent for the secured parties identified on Schedule A (in such capacity as collateral agent, together with its successors and assigns, the **"Collateral Agent"**).

BACKGROUND

A. The Obligors are borrowers under certain 12% Secured Promissory Notes – Series A (together with any renewals, extensions or modifications thereof, collectively referred to as the **"Notes"**) payable to the order of the secured parties identified on Schedule A (together with any future holders of any Notes, collectively, the **"Secured Parties"**), which schedule shall be amended from time to time to identify all persons holding Notes. The aggregate maximum outstanding original principal amount of all Notes is $3,000,000.

B. As a condition to extending the financial accommodations represented by the Notes, the Obligors have agreed to grant in favor of the Collateral Agent, for the benefit of the Secured Parties, a security interest in the Collateral (as hereinafter define) to secure their obligations under the obligations under the Notes.

C. Capitalized terms contained in Section 1 of this Security Agreement and used hereinafter shall have the meanings ascribed to them in the revised Article 9 of the Uniform Commercial Code as enacted in the State of Delaware and in effect on the date hereof (the **"Uniform Commercial Code"**), unless the context requires otherwise. Other capitalized terms which are used herein without definition shall have the meanings ascribed to them in the Notes.

NOW, THEREFORE, incorporating the Background Section herein, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in consideration of the foregoing and intending to be legally bound, the Obligors and the Collateral Agent hereby agree as follows:

Section 1. **Creation of Security Interest**. Each Obligor hereby grants to the Collateral Agent, for the benefit of the Secured Parties, a security interest in and lien priority position, a Lien upon and security interest in, all of such Obligors's right, title and interest in and to the following property and assets of such Obligor, in each case whether now owned or existing or hereafter acquired or arising and wherever located (collectively, the "**Collateral**"):

(i) all Accounts;

(ii) all Chattel Paper;

(iii) the Commercial Tort Claims (if any) set forth on Schedule I hereto;

(iv) all Contracts;

(v) all Deposit Accounts;

(vi) all Documents;

(vii) all Equipment;

(viii) all Fixtures;

(ix) all General Intangibles;

(x) all Goods;

(xi) all Instruments;

(xii) all Inventory;

(xiii) all Investment Property;

(xiv) all Letter-of-Credit Rights;

(xv) all Software;

(xvi) all Supporting Obligations;

(xvii) all cash, cash equivalents and money of the Obligor, wherever held;

(xviii) to the extent not covered or not specifically excluded by clauses (i) through (xvii) above, all of such Obligor's other personal property;

(xix) all Records evidencing or relating to any of the foregoing or that are otherwise necessary or useful in the collection thereof;

(xx) all accessions, additions, attachments, improvements, modifications and upgrades to, replacements of and substitutions for any of the foregoing; and

(xxi) any and all proceeds, as defined in the Uniform Commercial Code, products, rents, royalties and profits of or from any and all of the foregoing and, to the extent not otherwise included in the foregoing, (w) all payments under any insurance (whether or not the Collateral Agent is the loss payee thereunder), indemnity, warranty or guaranty with respect to any of the foregoing Collateral, (x) all payments in connection with any requisition, condemnation, seizure or forfeiture with respect to any of the foregoing Collateral, (y) all claims and rights (but not obligations) to recover for any past, present or future infringement or dilution of or injury to any Collateral consisting of copyrights patent or trademarks, and (z) all other amounts from time to time paid or payable under or with respect to any of the foregoing Collateral (collectively, "Proceeds"). For purposes of this Agreement, the term "Proceeds" includes whatever is receivable or received when Collateral or Proceeds are sold, exchanged, collected or otherwise disposed of, whether voluntarily or involuntarily.

Section 2. **Secured Obligations**. The lien and security interest created herein is given as security for the prompt payment, performance, satisfaction and discharge of the following obligations (the **"Obligations"**) of the Obligors: (i) to pay the principal and interest and any other liabilities of the Obligors to the Secured Parties under the Notes in accordance with the terms thereof; (ii) to repay the Secured Parties all amounts advanced by the Collateral Agent and Secured Parties under this Security Agreement or otherwise on behalf of the Obligors, including, but without limitation, advances for taxes, levies, insurance, rent, wages, repairs to or maintenance or storage of any Collateral; and (iii) to reimburse the Secured Parties and the Collateral Agent, on demand, for all of the Secured Parties' and Collateral Agent's expenses and costs, including the reasonable fees and expenses of its counsel, in connection with the negotiation, preparation, administration, amendment, modification, or enforcement of the Notes and this Security Agreement.

Section 3. **Representations and Warranties**. The Obligors, as of the date hereof and as long as the Notes remain outstanding, represents and warrants as follows:

3.1 **Good Title to Collateral**. The Obligors have good and marketable title and valid right in and to the Collateral free and clear of all liens and encumbrances other than the security interests granted to the Collateral Agent.

3.2 **Fictitious Name, Merger, Consolidation**. No Obligor has, during the past five (5) years, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business.

3.3 **Organization**. Each Obligor is a corporation organized under the laws of the State of Delaware. Each Obligor's exact legal name is as set forth in the first paragraph of this Security Agreement. If any Obligor has more than one place of business, the chief executive offices of such Obligor are at the address set forth in the first paragraph of this Security Agreement.

3.4 **Filings of Record**. No financing statement covering any of the Collateral is on file in any public office, other than the financing statements filed in favor of the Collateral Agent for the benefit of the Secured Parties.

3.5 **Non-Contravention**. The making and performing of this Security Agreement is not in contravention of or prohibited by an indenture, agreement, or undertaking to which any Obligor is a party or by which the Obligor is bound or affected.

3.6 **Financing Statements**. Completed Uniform Commercial Code financing statements (including fixture filings, as applicable), or other appropriate filings, recordings or registrations containing a description of the Collateral have been delivered to the Collateral Agent for filing with the Secretary of State of the State of Delaware, which are all the filings, recordings or registrations that are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent, for the benefit of the Secured Parties, in respect of all Collateral in which the security interest granted hereunder may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, rerecording, registration or reregistrations is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements.

Section 4. **Collection, Disposition and Use of Collateral**.

4.1 **Accounts**. The Collateral Agent, on behalf of the Secured Parties, hereby authorizes the Obligors to collect all Accounts from the Account Debtors. The Proceeds of Accounts so collected by the Obligors shall be received and held by the Obligors in trust for the Collateral Agent for the benefit of the Secured Parties but may be applied by the Obligors in their discretion towards payment of the Obligations or other purposes as permitted under the Note. So long as there has been no Event of Default (as hereinafter defined) hereunder, the Obligors shall be permitted to collect the Proceeds of Accounts from customers and the Obligors shall be free to make payments to satisfy their business obligations including working capital expenditures in the ordinary course of the Obligors' business. Upon the occurrence of an Event of Default, the authority hereby given to the Obligors to collect the Proceeds of Accounts in trust for the Collateral Agent may be terminated by the Collateral Agent at any time and the Collateral Agent, on behalf of the Secured Parties, shall have the right at any time thereafter, acting if it so chooses in any Obligor's name, to collect Accounts itself, to sell, assign, compromise, discharge or extend the time for payment of any Account, and to do all acts and things necessary or incidental thereto and each Obligor hereby ratifies all such acts. Upon the occurrence of an Event of Default, at the Collateral Agent's request, the Obligors will notify Account Debtors and any guarantor thereof that the Accounts payable by such Account Debtors have been assigned to the Collateral Agent for the benefit of the Secured Parties and shall indicate on all billings to Account Debtors that payments thereon are to be made to the Collateral Agent for the benefit of the Secured Parties. Upon the occurrence of an Event of Default, the Obligors shall not compromise, discharge, extend the time for payment or otherwise grant any indulgence or allowance with respect to any Account without the prior written consent of the Collateral Agent.

4.2 **Inventory; Ordinary Course**. So long as there has been no Event of Default hereunder, the Obligors shall be permitted to process and sell their Inventory and, to the extent not material, other forms of Collateral, but only to the extent that such processing and sale are conducted in the ordinary course of the Obligors' business.

Section 5. **Covenants and Agreements of the Obligor**.

5.1 **Maintenance and Inspection of Books and Records**. The Obligors shall maintain complete and accurate books and records and shall make all necessary entries therein to reflect the costs, values and locations of their Inventory and the transactions and documents giving rise to their Accounts and all payments, credits and adjustments thereto. The Obligors shall keep the Collateral Agent fully informed as to the location of all such books and records. The Collateral Agent's rights hereunder shall be enforceable at law or in equity, and the Obligors consent to the entry of judicial orders or injunctions enforcing specific performance of such obligations hereunder.

5.2 **Notice of Change/Relocation by Obligor**. The Obligors will furnish to the Collateral Agent prompt written notice of any change (i) in any Obligor's corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Obligor's chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in any Obligor's identity or corporate structure, (iv) in any Obligor's Federal Taxpayer Identification Number or (v) in any Obligor's jurisdiction of organization. The Obligors agree not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all Collateral for the benefit of the Secured Parties. The Obligors also agree promptly to notify the Collateral Agent if any material portion of the Collateral is damaged or destroyed.

5.3 **Confirmation of Accounts**. The Obligors agree that the Collateral Agent shall at all times have the right to confirm orders and to verify any or all of the Obligors' Accounts in the Collateral Agent's name for the benefit of the Secured Parties, or in any fictitious name used by the Collateral Agent for verifications, or through any public accountants.

5.4 **Delivery of Accounts Documentation**. At such intervals as the Collateral Agent shall require, the Obligors shall deliver to the Collateral Agent copies of purchase orders, invoices, contracts, shipping and delivery receipts and any other document or instrument which evidences or gives rise to an Account.

5.5 **Physical Inspection of Inventory**. The Obligors shall permit the Collateral Agent and its authorized agents to inspect any or all of the Obligors' Inventory at all reasonable times.

5.6 **Notice of the Collateral Agent's Interests**. If requested by the Collateral Agent, the Obligors shall give notice of the Collateral Agent's security interests in the Collateral to any third person with whom the Obligors has any actual or prospective contractual relationship or other business dealings.

5.7 **Accounts Agings**. The Obligors shall furnish the Collateral Agent with agings of their Accounts in such form and detail and at such intervals as the Collateral Agent may from time to time require but not more frequently than quarterly unless there has been an Event of Default.

5.8 **Defend the Collateral**. In the event that the Collateral shall hereafter become subject to any lien, encumbrance, security interest or claim of any other person or entity (other than with the express written consent of the Collateral Agent), the Obligors shall immediately undertake to secure the release of the Collateral from such lien, encumbrance, security interest or claim at the Obligors' own cost and expense. The Obligors shall appear in and defend any action or proceeding which may affect the security interest of the Collateral Agent in the Collateral.

5.9 **Insurance of Collateral**. The Obligors shall keep standard property and casualty loss coverage of their Inventory against such perils with AAA rated insurance companies. All insurance policies shall name the Collateral Agent, as collateral agent for the Secured Parties, as secured party/loss payee and shall provide for not less than thirty (30) days' advance notice in writing to the Collateral Agent of any cancellation thereof. The Collateral Agent shall have the right (but shall be under no obligation) to pay any of the premiums on such insurance. Any premiums paid by the Collateral Agent shall, if the Collateral Agent so elects, be considered an advance at the highest rate of interest provided in the Notes, and all such accrued interest shall be payable on demand. Any credit insurance covering Accounts shall name the Collateral Agent as loss payee. The Obligors expressly authorize their insurance carriers to pay proceeds of all insurance policies covering any or all of the Collateral directly to the Collateral Agent for the benefit of the Secured Parties.

5.10 **Existence**. Except in connection with an internal reorganization, each Obligor shall preserve its existence and not merge into or consolidate with any other entity, or sell all or substantially all of its assets. The Obligor shall not change the state of its organization, its name, or place of business without obtaining the prior written consent of the Collateral Agent, which will not be unreasonably withheld. Obligor agrees not to effect or permit any change referred to in the preceding sentences unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all Collateral for the benefit of the Secured Parties.

5.11 **Perfection of Collateral Agent's Interests**.

(a) The Obligors agree to cooperate and join, at their expense, with the Collateral Agent in taking such steps as are necessary, in the Collateral Agent's judgment, to perfect or continue the perfected status of the security interests granted hereunder, including, without limitation, the execution and delivery of any financing statements, amendments thereto and continuation statements.

(b) The Collateral Agent may at any time and from time to time, file financing statements, continuation statements and amendments thereto that describe the Collateral in particular or as all assets of the Obligors or words of similar effect and which contain any other information required by the Uniform Commercial Code for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether any Obligor is an organization, the type of organization and any organization identification number issued to such Obligor. The Obligors agree to furnish any such information to the Collateral Agent promptly upon request.

(c) The Obligors shall, at any time and from time to time, take such steps as the Collateral Agent may require for the Collateral Agent to insure the continued perfection and priority of the Collateral Agent's security interest in any of the Collateral and of the preservation of its rights therein.

5.12 **Maintenance of Inventory**. The Obligors shall care for and preserve the Inventory in good condition.

5.13 **Notification of Adverse Change in Collateral**. The Obligors agree immediately to notify the Collateral Agent if (a) any Account Debtor refuses to retain or returns any goods, the sale or delivery of which gave rise to an Account; (b) any Account has arisen pursuant to a sale under terms which differ materially from those customarily offered by the Obligor; or (c) any event occurs or is discovered which would cause any material diminution in the value of any significant item or type of Collateral, except as would not have a material adverse effect on the Obligor or its business.

5.14 **Reimbursement and Indemnification**. The Obligors agree to pay (or reimburse, as the Collateral Agent may elect) the Collateral Agent on demand for out-of-pocket expenses incurred in connection with the Collateral Agent's exercise of its rights under this Security Agreement. The Obligors agree to indemnify the Collateral Agent and hold it harmless against any costs, expenses, losses, damages and liabilities (including reasonable attorneys' fees and court costs) incurred in connection with this Security Agreement, other than as a direct result of the Collateral Agent's gross negligence or willful misconduct.

5.15 **Use of the Collateral**. The Obligors shall use the Collateral lawfully and only with insurance coverage and shall not use the Collateral so as to cause or result in waste, unreasonable deterioration or depreciation.

5.16 **Consent to Sell the Collateral**. Except as otherwise permitted under this Security Agreement, the Obligors shall not, without the written consent of the Collateral Agent, which will not be unreasonably withheld, sell, contract to sell, lease, encumber or dispose of the Collateral until the Obligations to the Secured Parties have been fully and finally discharged.

5.17 **Taxes and Assessments**. The Obligors shall pay, when due, all taxes, assessments, charges, liens, levies or encumbrances now or hereafter assessed against the Collateral.

5.18 **No Other Security Interests**. The Obligors shall not grant any security interests to any other Person in the Collateral.

5.19 **Negative Pledge on Real Property**. The Obligors hereby agree that they shall not sell, assign or transfer their interest in, or create, incur, assume or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, hypothecation, assignment, deposit arrangement or other preferential arrangement, charge or encumbrance (including without limitation, any conditional sale, or other title retention agreement, or finance lease) of any nature (an "Encumbrance"), upon or with respect to the real property located at 500 North 15th Avenue, Lebanon, PA 17046 (the " Real Property"), or authorize the filing under the Uniform Commercial Code of any jurisdiction of a financing statement in the nature of a fixture filing on their personal property located on or used in connection with the Real Property which names any Obligor as debtor, or sign any security agreement authorizing any secured party to file such financing statement on the Real Property without the written permission of the Collateral Agent. In the event of a sale of the Real Property or any other event which results in proceeds being distributed to any Person (a "Capital Event"), the Obligors agree that all such Capital Event proceeds, to the extent of the Obligations, shall be paid to the Collateral Agent for the benefit of the Lenders prior to any distribution or payment to any other Person.

Section 6. **Power of Attorney**. The Obligors hereby appoint the Collateral Agent as its lawful attorney-in-fact, said appointment being coupled with an interest, with full power of substitution, to do, at the Collateral Agent's option, and at the Obligors' expense and liability, all acts and things which the Collateral Agent may deem necessary or desirable to effectuate its rights under this Security Agreement, including without limitation, (a) file financing statements and otherwise perfect any security interest granted hereby, (b) correspond and negotiate directly with insurance carriers, (c) upon the occurrence of an Event of Default hereunder, receive, open and dispose of in any reasonable manner all mail addressed to the Obligor and notify Postal Service authorities to change the address for mail addressed to the Obligor to an address designated by the Collateral Agent, (d) upon the occurrence of an Event of Default hereunder, communicate with Account Debtors and other third parties for the purpose of protecting or preserving the Collateral, and (e) upon the occurrence of an Event of Default hereunder, in the Obligor's or the Collateral Agent's name, to demand, collect, receive, and receipt for, compound, compromise, settle and give acquittance for, and prosecute and discontinue or dismiss, with or without prejudice, any suit or proceeding respecting any of the Collateral. This power, being coupled with an interest is irrevocable until the Obligations have been fully satisfied.

Section 7. **Default**. The occurrence of an Event of Default as defined in the Notes shall constitute an event of default ("**Event of Default**") hereunder.

Section 8. **Collateral Agent's Rights upon Default**. After an acceleration of the unpaid principal and accrued interest pursuant to the terms of the Notes, the Collateral Agent, on behalf and for the benefit of the Secured Parties, may immediately and without notice pursue any remedy available at law or in equity to collect, enforce or satisfy any Obligations, including any or all of the following, which rights and remedies are cumulative, may be exercised from time to time, and are in addition to any rights and remedies available to the Secured Parties under the Notes.

8.1 **Uniform Commercial Code Rights**. Exercise any and all of the rights and remedies of a secured party under the Uniform Commercial Code, including the right to require the Obligors to assemble the Collateral and make it available to the Collateral Agent at a place reasonably convenient to the parties.

8.2 **Collection Rights**. Enforce the obligations of any Account Debtor or other person obligated on Collateral and exercise the rights of the Obligors with respect to the obligation of any Account Debtor or other person obligated on Collateral to make payment or otherwise render performance to the Obligors. Notify the Account Debtors or other person obligated on Collateral that payments are to be made directly to the Collateral Agent, or to such post office box as the Collateral Agent may direct.

8.3 **Sale of Collateral**. Upon ten (10) business days' prior written notice to the Obligors, which the Obligors hereby acknowledge to be sufficient, commercially reasonable and proper, the Collateral Agent may sell, lease or otherwise dispose of any or all of the Collateral at any time and from time to time at public or private sale, with or without advertisement thereof and apply the proceeds of any such sale first to the Collateral Agent's expenses in preparing the Collateral for sale (including reasonable attorneys' fees), second to the complete satisfaction of the Obligations and third, as required by the Uniform Commercial Code. The Obligors waive the benefit of any marshalling doctrine with respect to the Collateral Agent's exercise of its rights hereunder. The Obligors grants a royalty-free license to the Collateral Agent for all patents, service marks, trademarks, trade names, copyrights, computer programs and other intellectual property and proprietary rights sufficient to permit the Collateral Agent to exercise all rights granted to the Collateral Agent under this Section 8.3.

Section 9. **Notices**. Any written notices required or permitted by this Security Agreement shall be effective if delivered in accordance with the Notes.

Section 10. **No Assumption of Liability**. The lien and security interest granted hereunder is granted as security only and shall not subject the Collateral Agent or the Secured Parties to, or in any way alter or modify, any obligation or liability of Obligors with respect to or arising out of the Collateral.

Section 11. **Miscellaneous**.

11.1 **No Waiver**. No delay or omission by the Collateral Agent in exercising any right or remedy hereunder shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any further exercise thereof or the exercise of any other right or remedy.

11.2 **Preservation of Rights**. The Collateral Agent and the Secured Parties shall have no obligation or responsibility to take any steps to enforce or preserve rights against any parties to any Account and such obligation and responsibility shall be those of the Obligors exclusively. Further, the Obligors hereby authorize the Collateral Agent, and the Collateral Agent shall have the continuing rights, at its sole option and discretion, but is not obligated to: (a) do anything which the Collateral Agent is required but fails to do hereunder, and in particular the Collateral Agent may, if any Obligor fails to do so: (i) insure or take any reasonable steps to protect the Collateral, (ii) pay all taxes, levies, expenses and costs arising with respect to the Collateral, or (iii) pay any premiums payable on any policy of insurance required to be obtained or maintained hereunder; (b) direct any insurer to make payment of any insurance proceeds, including any returned or unearned premiums, directly to the Collateral Agent, for the benefit of the Secured Parties, and apply such moneys to any Obligations evidenced or secured hereby in such order or fashion as the Collateral Agent may elect; and (c) inspect the Collateral at any reasonable time. In addition to rights given to the Collateral Agent in this Security Agreement and to the Secured Parties in the Notes, the Collateral Agent shall have all the rights and remedies of a secured party in or under any applicable law, including without limitation, the Uniform Commercial Code.

11.3 **Successors and Assigns**. This Security Agreement (a) shall be binding upon the Obligors and the Collateral Agent and their respective permitted successors and assigns and (b) shall inure to the benefit of each Obligor and the Collateral Agent and its respective permitted successors and assigns; provided, however that no Obligor may assign its rights hereunder or any interest herein without the prior written consent of the Collateral Agent, and any such assignment or attempted assignment by any Obligor shall be void and of no effect with respect to the Collateral Agent. The Collateral Agent may assign this Security Agreement in whole or in part in its sole discretion at any and all time(s).

11.4 **Complete Agreement**. This Security Agreement and the instructions and notices required or permitted to be executed and delivered hereunder set forth the entire agreement of the parties with respect to the subject matter hereof, and supersede any prior agreement and contemporaneous oral agreements of the parties concerning its subject matter.

11.5 **Counterparts; Effectiveness**. This Security Agreement may be executed in any number of counterparts and by the different parties on separate counterparts. Each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute one and the same Security Agreement. This Security Agreement may be executed by exchange of facsimile signatures, which shall be deemed original signatures for purposes of this Security Agreement or otherwise. This Security Agreement shall be deemed to have been executed and delivered when the Collateral Agent has received counterparts hereof executed by all parties listed on the signature page(s) hereto.

11.6 **Amendments**. No modification, rescission, waiver, release or amendment of any provisions of this Security Agreement shall be effective unless set forth in a written agreement signed by the Obligors and the Collateral Agent.

11.7 **Termination**. Upon the payment in full in cash of the Obligations, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Obligors. Upon any such termination, at the Obligors' cost and expense, the Collateral Agent will execute and deliver to the Obligors such documents as it shall reasonably request to evidence such termination or the Collateral Agent shall authorize the Obligors and their designees to take all reasonable actions and make all filings necessary or desirable to effectuate the termination and release of the liens and security interests in the Collateral.

11.8 **Governing Law**. This Security Agreement shall be governed by and be construed under the internal laws of the State of Delaware without reference to conflict of laws principles.

11.9 **Severability**. If any provision of this Security Agreement shall be held invalid or unenforceable under applicable law in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of such provision in any other jurisdiction or the validity or enforceability of any other provision of this Security Agreement that can be given effect without such invalid or unenforceable provision.

11.10 **Waiver of Jury Trial**. Each and every party to this Security Agreement agrees that any suit, action or proceeding, whether claim or counterclaim, brought or instituted by any party hereto or any successor or assign of any party, on or with respect to this Security Agreement or the dealings of the parties with respect hereto, shall be tried only by a court and not by a jury. **EACH AND EVERY PARTY HEREBY KNOWINGLY, EXPRESSLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING.** Further, each party waives any right it may have to claim or recover, in any such suit, action or proceeding, any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. **EACH OBLIGOR ACKNOWLEDGES AND AGREES THAT THIS PARAGRAPH IS A SPECIFIC AND MATERIAL ASPECT OF THIS SECURITY AGREEMENT AND THAT THE COLLATERAL AGENT WOULD NOT EXTEND CREDIT TO SUCH OBLIGOR IF THE WAIVERS SET FORTH IN THIS PARAGRAPH WERE NOT A PART OF THIS SECURITY AGREEMENT.**

11.11 **Acknowledgment**. **THIS SECURITY AGREEMENT CONTAINS A POWER OF ATTORNEY COUPLED WITH AN INTEREST AND IS FOR THE SOLE BENEFIT OF THE COLLATERAL AGENT. THIS SECURITY AGREEMENT IS BEING EXECUTED IN CONNECTION WITH A LOAN OR OTHER FINANCIAL TRANSACTION FOR BUSINESS PURPOSES AND NOT PRIMARILY FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES. THE COLLATERAL AGENT, AS AGENT FOR THE OBLIGORS, UNDER THE POWER OF ATTORNEY, IS NOT A FIDUCIARY FOR THE OBLIGORS, IN EXERCISING ANY OF ITS RIGHTS OR POWERS PURSUANT TO THE POWER OF ATTORNEY, MAY DO SO FOR THE SOLE BENEFIT OF THE COLLATERAL AGENT AND THE SECURED PARTIES AND NOT FOR THE OBLIGORS.**

11.12 **Jurisdiction. IN ANY LEGAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER ARISING OUT OF OR RELATED TO THIS SECURITY AGREEMENT OR THE RELATIONSHIP EVIDENCED HEREBY, OBLIGORS AND THE COLLATERAL AGENT HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE COURT OF COMMON PLEAS OF BUCKS COUNTY, PENNSYLVANIA AND THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA. OBLIGORS AND THE COLLATERAL AGENT EXPRESSLY SUBMIT AND CONSENT IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND OBLIGORS AND THE COLLATERAL AGENT HEREBY WAIVE ANY OBJECTION WHICH THEY MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE, OR FORUM NON CONVENIENS. OBLIGORS HEREBY WAIVE PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND ANY OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREE THAT SERVICE OF SUCH SUMMONS, COMPLAINT, AND ANY OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO IT AT THE ADDRESS SET FORTH ABOVE AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE PROVIDING OF SUCH NOTICE. NOTHING IN THIS SECURITY AGREEMENT SHALL BE DEEMED, OR OPERATE, TO AFFECT THE RIGHTS OF THE COLLATERAL AGENT OR OBLIGORS TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW, OR TO PRECLUDE THE ENFORCEMENT BY THE COLLATERAL AGENT OR ANY OBLIGOR OF ANY CLAIM, OR ANY JUDGMENT OR ORDER OBTAINED IN SUCH FORUM, OR THE TAKING OF ANY ACTION UNDER THIS SECURITY AGREEMENT OR OTHERWISE TO ENFORCE SAME, IN ANY OTHER APPROPRIATE FORUM OR JURISDICTION.**

[Signatures Follow]

IN WITNESS WHEREOF, the undersigned hereto, intending to create an instrument under seal, have duly executed this Security Agreement the day and year aforesaid and have affixed their respective seals or have adopted as their own the seals typed next to their respective signatures with the intent to be legally bound hereby as of the day and year first above written.

OBLIGORS:

PROPHASE LABS, INC.,

By: */s/ Ted Karkus*
Ted Karkus CEO

PHARMALOZ MANUFACTURING INC.,

By: */s/ Ted Karkus*
Name: Ted Karkus
Title: CEO

QUIGLEY PHARMA INC.,

By: */s/ Ted Karkus*
Name: Ted Karkus
Title: CEO

COLLATERAL AGENT:

/s/ John E. Ligums, Jr.
John E. Ligums, Jr.

Schedule A to
Security Agreement,
dated December 11, 2015, by and among
ProPhase Labs, Inc., Pharmaloz Manufacturing Inc., Phusion Labs Manufacturing, Inc. and Quigley Pharma Inc.

List of Secured Parties

John E. Ligums, Jr.
Justin J. Leonard

Schedule I

Commercial Tort Claims