

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

Protea Biosciences Group, Inc.

CIK: **1335103** | IRS No.: **000000000** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SIC: **2834** Pharmaceutical preparations

Mailing Address

955 HARTMAN RUN ROAD
MORGANTOWN WV 26507

Business Address

955 HARTMAN RUN ROAD
MORGANTOWN WV 26507
304 292-2226

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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported): January 9, 2013 (January 3, 2013)

PROTEA BIOSCIENCES GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	000-51474	20-2903252
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

955 Hartman Run Road
Morgantown, West Virginia 26507

(Address of principal executive offices)

(304) 292-2226

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

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

- 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))
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Item 1.01. Entry into a Material Definitive Agreement.

On January 3, 2013 (the "Issue Date"), Protea Biosciences Group, Inc. (the "Company"), issued to El Coronado Holdings, LLC (the "Holder") for an aggregate purchase price equal to \$125,000 (1) a convertible promissory note (the "Note") in an aggregate principal amount equal to \$125,000 (the "Principal Amount") and (2) a warrant (the "Warrant") to purchase 187,500 shares of common stock of the Company. The Note accrues simple interest at a rate of 10% per annum and is due and payable on the earlier to occur of (i) April 1, 2013, or (ii) when declared due and payable by the holder upon the occurrence of an event of default. The occurrence of any one of the following events will be deemed an event of default: (i) the failure of the Company to pay the principal balance or accrued interest on the Note when due; (ii) the consent or institution by or against the Company of bankruptcy or insolvency proceedings or the filing, or consent by the Company for the filing of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action; or (iii) if the commencement of an action against the Company seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief has not been resolved in favor of the Company or the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, shall not have been vacated within 60 days. The Warrant is exercisable at an exercise price of \$1.10 per share anytime after the Issue Date until the earlier of (i) a Qualified Public Offering (as more specifically defined in the Warrant) or (ii) 5:00 p.m. EST on the fifth anniversary of the Issue Date.

At the option of the Holder, each \$0.50 of outstanding principal and accrued unpaid interest is convertible into one share of common stock of the Company at any time after the Issue Date.

The description of the Note and Warrant included in this Item 1.01 is qualified in its entirety by the terms and conditions of the form of the Note filed as Exhibit 10.1, and the Warrant filed as Exhibit 10.2, to this Current Report on Form 8-K.

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

As more fully described in Item 1.01 of this Current Report on Form 8-K, the Company issued a Note to the Holder equal to the Principal Amount. The Note constitutes a short-term debt obligation arising other than in the ordinary course of business which creates a direct financial obligation on the Company. The terms of the Note set forth above are incorporated herein by this reference.

Item 3.02 Recent Sales of Unregistered Securities.

On the Issue Date, the Company issued the Note and the Warrant to the Holder. The terms of the Note and the Warrant set forth above are incorporated herein by this reference. No commissions were paid in respect of the sale of the Note and the Warrant. The Note and the Warrant were issued pursuant to the exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended, as a transaction by an issuer not involving a public offering, in which the investor is accredited and has acquired the securities for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

Item 9.01. Exhibits and Financial Statements

(d) Exhibits

10.1 Form of Convertible Promissory Notes, dated January 3, 2013.

10.2 Form of Warrant to Purchase Common Stock, dated January 3, 2013.

SIGNATURES

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

Dated: January 9, 2013

PROTEA BIOSCIENCES GROUP, INC.

By: /s/ Stephen Turner

Stephen Turner

Chief Executive Officer

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT THERETO UNDER SUCH ACT AND APPLICABLE LAWS OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

PROTEA BIOSCIENCES GROUP, INC.
10% CONVERTIBLE PROMISSORY NOTE
DUE APRIL 1, 2013

\$125,000

Issue Date: January 3, 2013

Protea Biosciences Group, Inc., a Delaware corporation (the “Company”), the principal office of which is located at 955 Hartman Run Road, Morgantown, WV 26507 for value received hereby promises to pay to El Coronado Holdings, LLC or its registered assigns (“Holder”), the sum of \$125,000, or such other amount as shall then equal the outstanding principal amount hereof and all accrued unpaid interest, as set forth below, on the earlier to occur of (i) April 1, 2013 (“Maturity Date”), or (ii) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below). Payment for all amounts due hereunder shall be made by wire transfer of immediately available funds, in lawful tender of the United States, to an account designated in writing by the Holder.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. *Definitions.* As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) “Company” includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(ii) “Holder,” when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

2. *Interest.* Simple interest on the unpaid principal balance of this Note shall accrue from January 2, 2013, at the rate of ten percent (10%) per annum. All accrued unpaid interest shall be due and payable to the Holder on the Maturity Date.

3. *Events of Default.* If any of the events specified in this Section 3 shall occur (herein individually referred to as an “Event of Default”), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Any failure to pay the principal balance of or accrued interest on this Note when due hereunder.

(ii) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action; or

(iii) If, within sixty (60) days after the commencement of an action against the Company seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if, within sixty (60) days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated; or

4. *Prepayment.* This Note may be prepaid at any time without penalty or premium with the express written consent of the Holder.

5. *Conversion.*

5.1 *Voluntary Conversion.* The Holder of this Note has the right, at the Holder's option, at any time prior to payment in full of the principal balance and all accrued interest of this Note, to convert this Note, in accordance with the provisions of Section 5.2 hereof, in whole or in part, into fully paid and nonassessable shares of common stock, par value \$0.0001 per share of the Company ("Common Stock"). The number of shares of Common Stock into which this Note may be converted ("Conversion Shares") pursuant to this Section 5.1 shall be equal to one (1) share of Common Stock for each \$0.50 of outstanding principal and accrued unpaid interest due under the Note on the date of conversion (the "Conversion Rate"). In addition, the Holder will receive a Warrant for the purchase of Common Stock, equal to 75% of the number of Conversion Shares. The exercise price of the Warrant shall be \$1.10 per share, and, with respect to its terms, shall be identical to the Warrant previously issued to El Coronado Holdings LLC (ref. Warrant No. 469, Issue Date December 10, 2012).

5.2 *Notice of Conversion.* Before the Holder shall be entitled to convert this Note into shares of Common Stock pursuant to Section 5.1, it shall surrender this Note at the office of the Company and shall give written notice by mail, postage prepaid, to the Company at its principal corporate office, of the election to convert the same pursuant to Section 5.1, and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver at such office to the Holder of this Note a certificate or certificates for the number of shares of Common Stock to which the Holder of this Note shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Note, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

5.3 *Mechanics and Effect of Conversion.* No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder, upon the conversion of this Note, the number of shares issued upon the conversion of this Note shall be rounded up to the nearest whole share. At its expense, the Company shall, as soon as practicable after conversion, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion, together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note.

6. *Conversion Rate Adjustments.*

6.1 *Adjustments for Stock Splits and Subdivisions.* In the event the Company should at any time or from time to time after the date of issuance hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as “Common Stock Equivalents”) without payment of any consideration by such holder upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Rate of this Note shall be appropriately decreased so that the number of shares of Common Stock issuable upon conversion of this Note shall be increased in proportion to such increase of outstanding shares, unless such adjustment has already been made to the Conversion Rate.

6.2 *Adjustments for Reverse Stock Splits.* If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Rate for this Note shall be appropriately increased so that the number of shares of Common Stock issuable on conversion hereof shall be decreased in proportion to such decrease in outstanding shares, unless such adjustment has already been made to the Conversion Rate.

6.3 *Reservation of Stock Issuable Upon Conversion.* The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of this Note such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of the Note; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of the entire outstanding principal amount and accrued interest of this Note, in addition to such other remedies as shall be available to the holder of this Note, the Company will use its best efforts to take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

7. *Assignment.* Subject to the restrictions on transfer described in Section 9 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors and assigns of the parties.

8. *Waiver and Amendment.* Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the Holder.

9. *Transfer of This Note or Securities Issuable on Conversion Hereof.* With respect to any offer, sale or other disposition of this Note or securities into which such Note may be converted, the Holder will give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Promptly upon receiving such written notice and opinion, if so requested, the Company, as promptly as practicable, shall notify such Holder that such Holder may sell or otherwise dispose of this Note or such securities, all in accordance with the terms of the notice delivered to the Company. Each Note thus transferred and each certificate representing the securities thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Act, unless in the opinion of counsel for the Company such legend is not required. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

10. *Notices.* Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if faxed with confirmation of receipt by telephone or if mailed by registered or certified mail, postage prepaid, at the respective addresses of the parties set forth below. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered, faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

Holder: El Coronado Holdings, LLC
c/o Rage Carr & Monroe, LLP
4801 E. Broadway Blvd., Suite 501
Tucson, AZ 85711-3648

Borrower: Protea Biosciences Group, Inc.
955 Hartman Run Road
Morgantown, WV 26507
Attn: Stephen Turner
Fax: 304-292-7101

with a copy to (which shall not constitute notice):

Richardson & Patel LLP
750 Third Avenue, 9th Floor
New York, NY 10017
Attn: David N. Feldman
Fax: 917-677-8165

11. *No Stockholder Rights.* Nothing contained in this Note shall be construed as conferring upon the Holder or any other person the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company; and no dividends or interest shall be payable or accrued in respect of this Note or the interest represented hereby or the Conversion Shares obtainable hereunder until, and only to the extent that, this Note shall have been converted pursuant to Section 5.1.

12. *Usury.* This Note is hereby expressly limited so that in no event whatsoever, whether by reason of acceleration of maturity of the loan evidenced hereby or otherwise, shall the amount paid or agreed to be paid to the Holder hereunder for the loan, use, forbearance or detention of money exceed that permissible under applicable law. If at any time the performance of any provision of this Note or of any other agreement or instrument entered into in connection with this Note involves a payment exceeding the limit of the interest that may be validly charged for the loan, use, forbearance or detention of money under applicable law, then automatically and retroactively, ipso facto, the obligation to be performed shall be reduced to such limit, it being the specific intent of the Company and the Holder that all payments under this Note are to be credited first to interest as permitted by law, but not in excess of (i) the agreed rate of interest set forth herein or therein or (ii) that permitted by law, whichever is the lesser, and the balance toward the reduction of principal. The provisions of this Section 12 shall never be superseded or waived and shall control every other provision of this Note and all other agreements and instruments between the Company and the Holder entered into in connection with this Note.

13. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding that body of law relating to conflict of laws.

14. *Heading; References.* All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

15. *Waiver.* The Company hereby waives demand, notice, presentment, protest and notice of dishonor.

[Signature Page to Convertible Promissory Note Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be issued this 3rd day of January, 2013.

PROTEA BIOSCIENCES GROUP, INC.
a Delaware corporation

By: /s/ Stephen Turner
Name: Stephen Turner
Title: Chief Executive Officer

Signature of Holder: /s/ Josiah T. Austin
Name of Holder: Josiah T. Austin, Managing Member
El Coronado Holdings, LLC
Address: 4673 Christopher Place
Dallas, TX 75204

NOTICE OF CONVERSION

(To Be Signed Only Upon Conversion of Note)

TO PROTEA BIOSCIENCES GROUP, INC.

The undersigned, the holder of the foregoing Note, hereby surrenders such Note for conversion into shares of Common Stock of PROTEA BIOSCIENCES GROUP, INC. to the extent of \$_____ unpaid principal amount and accrued interest of such Note, and requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

Dated: _____

(Signature must conform in all respects to name of holder as specified on the face of the Note)

(Address)

THIS WARRANT AND THE SECURITIES UNDERLYING THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH SECURITIES ACT, ANY APPLICABLE STATE SECURITIES LAWS AND THE RULES AND REGULATIONS THEREUNDER.

PROTEA BIOSCIENCES GROUP, INC.

WARRANT

TO PURCHASE COMMON STOCK OF THE COMPANY

Warrant No. 472

Issue Date: January 3, 2013

FOR VALUE RECEIVED, PROTEA BIOSCIENCES GROUP, INC., a Delaware corporation (the “Company”), grants the following rights to El Coronado Holdings, LLC, and its permitted assigns, heirs, executors and administrators (individually and collectively, the “Holder”), as of the 3rd day of January, 2013 (the “Issue Date”). This warrant (the “Warrant”) has been issued by the Company in pursuant to that certain Convertible Promissory Note, dated January 3, 2013 issued to the Holder.

Section 1. Grant.

The Holder is hereby granted the right (collectively, the “Purchase Rights”), in accordance with the terms and conditions of this Warrant, from the date hereof until the expiration of the “Exercise Period” (as defined below), to purchase from the Company that number of fully paid and non-assessable shares of the Common Stock of the Company, set forth in Section 2 hereof, at the “Exercise Price” (as defined below), upon delivery of this Warrant to the Company with the Notice of Exercise form attached as Exhibit 1 hereto, duly executed, and upon tender of the Exercise Price for the shares of Common Stock to be purchased.

Section 2. Number of Shares of Common Stock Purchasable.

2.1 Subject to the other provisions of this Section 2, this Warrant entitles the Holder to purchase from time to time up to 187,500 shares of the Company’s Common Stock (the “Warrant Shares”).

2.2 In case prior to the expiration of the Purchase Rights by exercise or by the terms of this Warrant, the Company shall undertake any reclassification, stock split, reverse stock split, stock dividend or any similar proportionately-applied change (collectively, a “Reclassification”) of outstanding shares of Common Stock (other than a change solely in, of, or from par value), the Holder shall thereafter be entitled, upon exercise of this Warrant for the same total consideration as presently required, to purchase the kind and amount of shares of stock and other securities and property receivable upon such Reclassification by a holder of the number of shares of Common Stock which this Warrant entitles the Holder hereof to purchase immediately prior to such Reclassification. Notice of any such Reclassification shall be given to the Holder pursuant to Section 12 hereof.

2.3 In case prior to the expiration of the Purchase Rights by exercise or by the terms of this Warrant, the Company shall determine to consolidate or merge with, or convey all, or substantially all, of its property or assets to, any other corporation or corporations, or dissolve, liquidate or wind up, then, as a condition precedent to such consolidation, merger, conveyance, dissolution, liquidation or winding up, notice shall be given to the Holder pursuant to Section 12 hereof and lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to receive from the Company or the successor corporation, as the case may be, upon the basis and upon the terms and conditions specified in this Warrant, in lieu of the shares of Common Stock of the Company theretofore purchasable upon the exercise of the Purchase Rights, such shares of stock, securities, or assets as may be issued or payable with respect to, or in exchange for, the number of shares of Common Stock of the Company theretofore purchasable upon the exercise of the Purchase Rights had such consolidation, merger, conveyance, dissolution, liquidation or winding up not taken place; and in any such event the rights of the Holder to an adjustment of the number of shares of Common Stock purchasable upon the exercise of the Purchase Rights as herein provided, shall continue and be preserved in respect of any stock or securities which the Holder becomes entitled to purchase.

2.4 (a) For purposes of this Section 2.4, the capitalized terms in this Section shall have the following meanings:

(i) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued or sold by the Corporation after the Issue Date, other than Exempted Securities;

(ii) "Convertible Securities" shall mean shares of Common Stock issued or deemed issued upon the conversion or exercise, as appropriate, of any debt or equity securities of the Company which are convertible into or exercisable for shares of Common Stock of the Company;

(iii) "Exempted Securities" shall mean:

(v) Convertible Securities issued prior to the Issue Date, provided, however, that the agreements or instruments evidencing the Convertible Securities have not been amended after the Issue Date so as to increase the number of shares of Common Stock issuable under the Convertible Securities or to lower the conversion or exercise price, as appropriate, of the Convertible Securities;

(w) shares of Common Stock issued or deemed issued as a dividend or distribution on the Common Stock;

(x) shares of Common Stock issued or issuable upon the exercise of this Warrant;

(y) shares of Common Stock issued or issuable by reason of a stock split, split-up, or other distribution on shares of Common Stock; or

(z) shares of Common Stock issued or issuable to employees, consultants, directors or officers pursuant to an equity incentive plan, employment agreement or other agreement as compensation for services provided to the Company.

(b) At any time after the Issue Date through the expiration of the Purchase Rights set forth in this Warrant by exercise or the terms of this Warrant, the Company issues or sells Additional Shares of Common Stock, for a consideration per Additional Share of Common Stock that is less than \$0.50 (as such amount may be adjusted proportionately for any Reclassification) (a "Dilutive Issuance"), on the date of and immediately prior to the Dilutive Issuance, the Exercise Price, then in effect, will be reduced concurrently with the Dilutive Issuance to a price (rounded to the nearest cent) calculated by multiplying such Exercise Price by a fraction, of which (i) the numerator shall be the number of shares of Common Stock outstanding on a fully diluted basis immediately prior to such Dilutive Issuance plus the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock issued pursuant to the Dilutive Issuance would purchase at the Exercise Price; and (ii) the denominator shall be the number of shares of Common Stock outstanding on a fully diluted basis immediately prior to such Dilutive Issuance plus the number of such Additional Shares of Common Stock so issued. The provisions of this Section 2(b) shall not operate to increase the Exercise Price.

Section 3. Exercise Period; Registration Statement Notice.

3.1 The Purchase Rights represented hereby shall be exercisable in whole or in part from time to time after the date of issuance of this Warrant until the earlier of (i) a Qualified Public Offering or (ii) 5:00 p.m. Eastern time on the fifth anniversary of the Issue Date hereof (the "Exercise Period"). For purposes of this Warrant, the term "Qualified Public Offering" shall mean the closing of a firm commitment underwritten offering pursuant to an effective registration statement under the Securities Act covering the offer and sale of Common Stock for the account of the Company in which the net cash proceeds to the Company (after deduction of underwriting discounts and commissions) are at least \$10,000,000.

3.2 The Company shall give the Holder written notice, at the address of the Holder set forth on the Company's books, not less than twenty days prior to the closing of a Qualified Public Offering.

Section 4. Exercise.

4.1 The Purchase Rights represented by this Warrant are exercisable upon the terms and conditions set forth herein at the option of the Holder in whole at any time and in part, but not for less than 100 shares at a time, at any time and from time to time during the Exercise Period upon the delivery of the Notice of Exercise form attached hereto as Exhibit 1 to the Company with such notice duly executed and upon payment in cash, wire transfer or bank cashier's check of the Exercise Price. The Purchase Rights shall be deemed to have been exercised, and the Holder shall be deemed to have become a stockholder of record of the Company for the purposes of receiving dividends and for all other purposes whatsoever with respect to the shares of Common Stock so purchased, as of the date of delivery of such properly executed notice accompanied by proper tender of the Exercise Price at the office of the Company. As promptly as practicable on or after such date, and in any event within three (3) business days thereafter, the Company at its expense shall issue and deliver, or cause to be issued and delivered, to the person or persons entitled to receive the same, a certificate or certificates for the number of shares issuable upon such exercise. In the event that this Warrant is exercised in part, the Company at its expense shall execute and deliver a new Warrant of like tenor exercisable for the number of shares for which this Warrant may then be exercised.

4.2 In lieu of the payment methods set forth in Section 4.1 above, in the event the Warrant Shares have not been registered under an effective registration statement filed pursuant to the Securities Act prior to the earlier of: (i) one (1) year from the Issue Date of this Warrant; or (ii) the closing of the Qualified Public Offering, the Holder may elect to exchange all or some of this Warrant for shares of Common Stock equal to the value of the amount of the Warrant being exchanged on the date of exchange. If Holder elects to exchange this Warrant as provided in this Section 4.2, Holder shall tender to the Company the Warrant for the amount being exchanged, along with written notice of Holder's election to exchange some or all of the Warrant, and the Company shall issue to Holder the number of shares of the Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

- Where: X = the number of shares of Common Stock to be issued to Holder.
Y = the number of shares of Common Stock purchasable under the amount of the Warrant being exchanged (as adjusted to the date of such calculation).
A = the Fair Market Value of one share of the Common Stock on the date that the notice of exercise is received by the Company.
B = Exercise Price (as adjusted to the date of such calculation).

“Fair Market Value” of one share of Common Stock as of a particular date shall mean: (i) if traded on a national securities exchange, the average volume weighted average price reported by Bloomberg LP (“VWAP”) of the Common Stock of the Company on such exchange over the five (5) trading days ending immediately prior to the applicable date of valuation; (ii) if quoted on the OTC Bulletin Board or an over the counter market operated by OTC Markets Group, Inc or its successor, the average VWAP over the thirty (30) trading days ending immediately prior to the applicable date of valuation; (iii) if determined in connection with a Qualified Public Offering, the offering price of the Common Stock in the Qualified Public Offering; and (iv) except as set forth in (iii), if neither (i) nor (ii) applies, the Fair Market Value shall be the value thereof, as agreed upon by the Company and the Holder; provided, however, that if the Company and the Holder cannot agree on such value, such value shall be determined by an independent valuation firm experienced in valuing businesses such as the Company and jointly selected in good faith by the Company and the Holder. Fees and expenses of the valuation firm shall be paid for by the Company.

Section 5. Exercise Price. The exercise price for each share of Common Stock issuable to the Holder hereunder shall be \$1.10 per share subject to adjustment hereunder (the “Exercise Price”).

Section 6. Company’s Warranties and Covenants as to Capital Stock. The Company has taken all action necessary and appropriate to properly authorize, reserve and issue those shares of Common Stock issuable to the Holder pursuant to this Warrant including an authorization of issuance and setting of exercise price. The Common Stock deliverable on the exercise of the Purchase Rights represented hereby shall, when issued, be duly and validly issued, fully paid and nonassessable. The Company shall at all times reserve and hold available sufficient shares of Common Stock to satisfy all conversion and purchase rights of all outstanding convertible securities and warrants.

Section 7. Transfer; Compliance With Securities Laws; Right of Company to Request Opinion of Counsel Confirming Such Compliance; Holder Responsible for Costs of Transfer Including Reasonable Counsel Fees. The Purchase Rights shall be registered on the books of the Company, which shall be kept by it at its principal office for that purpose. This Warrant and the Common Stock issuable upon exercise of the Purchase Rights, may not be transferred or assigned in whole or in part without compliance with all applicable federal and state securities laws by the transferor and the transferee, including, if requested by the Company, an opinion of counsel satisfactory to the Company to the effect that the transfer or assignment is in compliance with applicable securities laws. Subject to such compliance, the Purchase Rights shall be transferable on said books, in whole or in part, by the Holder in person or by duly authorized attorney upon surrender of this Warrant properly endorsed by the Holder executing the Permitted Transfer or Assignment Form attached hereto and made a part hereof as Exhibit 2. All reasonable and documented costs associated with any transfer or assignment, including, without limitation, the reasonable fees of counsel to the Company shall be borne by the transferor or assignor. The Company agrees that, while the Purchase Rights remain valid and outstanding, its stock transfer books shall not be closed for any purpose whatsoever except under arrangements which shall insure to persons exercising warrants or applying for transfer of stock all rights and privileges which they might have had or received if the stock transfer books had not been closed and they had exercised their Purchase Rights at any time during which such transfer book shall have been closed.

Section 8. Charges, Taxes and Expenses. Issuance of certificates for shares of Common Stock issuable upon the exercise of this Warrant or any portion thereof (and issuance of a replacement Warrant certificate in the event of partial exercise) shall be made without charge to the Holder hereof for any issue taxes or any other incidental expenses in respect of the issuance of such certificates to and in the name of the registered Holder of this Warrant, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder of this Warrant. Certificates will be issued in a name other than that of the Holder upon the request of a Holder and payment by the Holder of any applicable transfer taxes and compliance with all applicable securities laws and with all applicable provisions of this Warrant including but not limited to Section 7 hereof.

Section 9. Exchange for Other Denominations. This Warrant is exchangeable for new certificates of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder in denominations designated by the Holder at the time of surrender. In the event of the purchase, at any time prior to the expiration of the Exercise Period, of less than all of the shares of Common Stock purchasable hereunder, the Company shall cancel this Warrant upon surrender thereof, and shall promptly execute and deliver to the Holder hereof a new warrant of like tenor and date for the balance of the shares purchasable hereunder.

Section 10. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable and documented expenses incidental thereto, and upon surrender of this Warrant, if mutilated, the Company shall promptly make and deliver a new warrant of like tenor and date, in lieu of this Warrant and cancel this Warrant.

Section 11. Registration Rights. The Warrant Shares are subject to the “piggy-back” registration rights set forth in Section 8 of the SPA.

Section 12. Notices Including Certificate of Company In Event of Adjustment.

(a) Whenever the number of shares purchasable hereunder shall be adjusted pursuant to Section 2 hereof, the Company shall issue a certificate signed by its Chief Financial Officer or its President or such other appropriate officer, setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Warrant.

(b) In case:

(i) the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(ii) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation, or

(iii) of any voluntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company shall mail or deliver or cause to be mailed or delivered to the Holder or Holders a notice specifying, as the case may be, (A) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (B) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up. Such notice shall be mailed or delivered at least 15 business days prior to the date therein specified.

(c) All notices, requests, consents and demands required by this Warrant shall be in writing and shall be personally delivered or mailed, postage prepaid, to the Company at:

PROTEA BIOSCIENCES GROUP, INC.
955 Hartman Run Road
Morgantown, WV 26507
Attn: President
Fax: 304-292-7101

with a copy (which shall not constitute notice) to:

Richardson & Patel LLP
750 Third Avenue, 9th Floor
New York, New York 10017
Attn: David Feldman, Esq.
Fax: (917) 677-8165

and to the Holder at the address of such Holder set forth in the SPA executed by the original holder of this Warrant in connection with the purchase of one or more Units of the Company's securities. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery with written verification of receipt.

Section 13. Miscellaneous. This Warrant shall not entitle the Holder to any of the rights of a stockholder of the Company. This Warrant shall be binding upon the Company's successors. This Warrant shall be governed, construed and enforced in accordance with the laws of the State of Delaware. In case any provision of this Warrant shall be invalid, illegal or unenforceable, or partially invalid, illegal or unenforceable, the provision shall be enforced to the extent, if any, that it may legally be enforced and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. This Warrant shall any term hereof may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

[Signatures appear on following page.]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed, under seal and delivered on its behalf as of the Issue Date set forth above.

PROTEA BIOSCIENCES GROUP, INC.

By: /s/ Stephen Turner
Stephen Turner
President

**NOTICE OF EXERCISE PURSUANT TO
ATTACHED WARRANT**

_____, 20__

To: PROTEA BIOSCIENCES GROUP, INC.

(1) The undersigned, the Holder of record of the attached Warrant of PROTEA BIOSCIENCES GROUP, INC., hereby exercises the option granted by the Purchase Rights evidenced by the attached Warrant [and hereby tenders payment of the Exercise Price as determined by the Warrant] [on a “cashless” basis as permitted by Section 4.2 of the Warrant] to purchase upon the terms set forth in such Warrant [_____] shares of Common Stock, which constitutes all [or a portion] of the shares of Common Stock issued pursuant to the Purchase Rights represented by this Warrant of PROTEA BIOSCIENCES GROUP, INC. All capitalized terms used but not defined in this notice have the meanings assigned to such terms in the Warrant.

(2) In exercising this Warrant, the undersigned hereby confirms and acknowledges that (a) the undersigned has complied with all terms and conditions of the SPA as defined in the Warrant, including the requirement that the offer and sale of the Units was limited to “accredited” investors only, (b) the shares of the Common Stock to be issued are being acquired solely for investment and solely for the account of the undersigned, (c) the undersigned will not offer, sell or otherwise dispose of any such shares of Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws, and (d) as required under the terms of the SPA, the certificate or certificates representing said shares of Common Stock shall bear a restrictive legend prohibiting and restricting transfer of such shares except in compliance with applicable federal and state securities laws.

(3) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below.

(4) Please issue a new Warrant for the unexercised portion of the attached Warrant, if any, in the name of the undersigned or in such other name as is specified below:

ATTEST:	HOLDER:	_____
	By:	_____
	Name:	_____
	Title:	_____

(If certificates for Common Stock or new Warrants are requested in a name other than the undersigned, be advised that the delivery of the certificates and/or new Warrants will be delayed until the Company assures itself that such change is permitted under Section 7 of the Warrant that such change does not violate applicable federal and state securities laws.)

PERMITTED TRANSFER OR ASSIGNMENT FORM

NOTE: THIS ASSIGNMENT BEARS A RESTRICTIVE LEGEND BELOW

FOR VALUE RECEIVED, the undersigned Holder of record of this Warrant of PROTEA BIOSCIENCES GROUP, INC. (the "Company"), which is dated _____, hereby sells, assigns and transfers unto the Assignee named below all of the rights, including, without limitation, the Purchase Rights (as such term is defined in this Warrant) of the undersigned under the within Warrant, with respect to the number of shares of Common Stock set forth below:

Name of Transferee/Assignee	Address	No. of Shares
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and does hereby irrevocably constitute and appoint the Secretary of PROTEA BIOSCIENCES GROUP, INC. to make such transfer on the books of PROTEA BIOSCIENCES GROUP, INC., maintained for the purpose, with full power of substitution in the premises.

Attached hereto, if and to the extent requested by the Company, is an opinion of counsel that the assignment does not violate or is exempt from, any federal and state securities laws. As provided in the Warrant, including but not limited to Section 7 of the Warrant, the Company may, in its sole discretion, decide whether such opinion is satisfactory, and Assignee and Holder agree to any reasonable delay in transfer caused by such evaluation and further acknowledge and agree that they shall bear all reasonable and documented costs associated with any transfer or assignment, including, without limitation, the reasonable fees of counsel to the Company shall be borne by the transferor or assignor.

The undersigned also represents that, by assignment hereof, the Assignee acknowledges that this Warrant and the shares of Common Stock to be issued upon exercise hereof or conversion thereof are being acquired for investment and that the Assignee will not offer, sell or otherwise dispose of this Warrant or any shares of stock to be issued upon exercise hereof or conversion thereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws. Further, the Assignee has acknowledged that upon exercise of this Warrant, the Assignee shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Common Stock so purchased are being acquired for investment and not with a view toward distribution or resale in violation of applicable securities laws.

Accordingly, the following restrictive legend is made applicable to this assignment (and to this Warrant and securities covered by this Warrant as assigned hereby to Assignee):

This Assignment and this Warrant and the securities underlying this Warrant as assigned hereby, have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered, sold or otherwise transferred, assigned, pledged or hypothecated in the absence of such registration or an exemption therefrom under such Securities Act, any applicable state securities laws and the rules and regulations thereunder.

[Signatures appear on following page.]

Dated: _____

HOLDER: _____

By: _____

Name: _____

Title: _____

Dated: _____

ASSIGNEE: _____

By: _____

Name: _____

Title: _____
