

US BIODEFENSE INC  
Form 10QSB  
April 20, 2007

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

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended: February 28, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-31431

**US BIODEFENSE, INC.**

(Exact name of registrant as specified in its charter)

Utah

33-0052057

(State of Other Jurisdiction of Incorporation)

(IRS Employer Identification No.)

375 South 6th Avenue

City of Industry, California

91746

(Address of Principal Executive Offices)

(Zip Code)

(626) 961-0562

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 39,059,047

**US Biodefense, Inc.**

**Table of Contents**

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	3
Balance Sheet	4
Statements of Operations	5
Statements of Cash Flows	6
Notes	7
Item 2. Management's Discussion and Plan of Operation	16
<b>PART II - OTHER INFORMATION</b>	
Item 3. Controls and Procedures	19
Item 6. Exhibits	19
<b>SIGNATURES</b>	20

-2-

**PART I - FINANCIAL INFORMATION**  
**Item 1. Unaudited Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("Commission"). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto, which are included in the Company's Annual Report on Form 10-KSB previously filed with the Commission on March 15, 2007.

The accompanying notes are an integral part of these consolidated financial statements.

-3-

**US Biodefense, Inc.**  
**Balance Sheet**

<u>ASSETS</u>	(Unaudited) February 28, 2007	November 30, 2006
Current assets		
Cash and cash equivalents	\$13,009	\$22,663
Marketable securities	73,000	73,000
Accounts receivable, net of allowance of \$20,000	61,566	54,827
Inventory	85,192	75,355
Total current assets	232,767	225,845
Property and equipment, net of accumulated depreciation	2,212	2,418

Edgar Filing: US BIODEFENSE INC - Form 10QSB

Customer list	7,500	7,500
Deposits	1,000	1,000
<b>Total assets</b>	<b>243,479</b>	<b>236,763</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

<b>Current liabilities</b>		
Accounts payable and accrued expenses	72,992	19,278
Notes payable - Related party	41,600	--
Deferred revenues	12,500	25,000
<b>Total current liabilities</b>	<b>127,092</b>	<b>44,278</b>
<b>Stockholders' equity:</b>		
Common stock 100,000,000 shares authorized, \$.0001 par value, 39,059,047 share issued and outstanding	39,059	39,059
Additional paid in capital	4,235,531	4,235,531
Other comprehensive deficit	(27,000)	(27,000)
Accumulated deficit	(4,131,203)	(4,055,105)
<b>Total stockholders' equity (deficit)</b>	<b>116,387</b>	<b>192,485</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$243,479</b>	<b>\$236,763</b>

See accompanying notes to financial statements

-4-

---

**US Biodefense, Inc.**  
**Statements of Operations**  
**For the three months ended February 28, 2007 and 2006**  
**(Unaudited)**

	2007	2006
<b>Revenues</b>		
Revenues from sales of tangible products	\$88,854	\$--
Revenues from services	12,500	--
Revenues - Related parties	--	20,000
<b>Total revenues</b>	<b>101,354</b>	<b>20,000</b>
Cost of tangible products sold	60,515	--
	40,839	20,000
<b>Expenses</b>		
Research and development expenses	--	12,866
General and administrative expenses	116,937	6,288
General & administrative expenses - Related party	--	3,000
<b>Total expenses</b>	<b>116,937</b>	<b>22,154</b>

Edgar Filing: US BIODEFENSE INC - Form 10QSB

Net income (loss)	(76,098)	(2,154)
Income taxes	--	--
	(76,098)	(2,154)
Weighted average number of shares outstanding	39,059,047	30,304,047
Basic and diluted net income (loss) per common share	\$(0.00)	\$(0.00)
	See accompanying notes to financial statements	

-5-

---

**US Biodefense, Inc.**  
**Statement of Cash Flows**  
**For the three months ended February 28, 2007 and 2006**  
**(Unaudited)**

	2007	2006
Cash flows from operating activities		
Net income (loss)	\$(76,098)	\$(2,154)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	206	--
Deferred revenues	(12,500)	(20,000)
Changes in operating assets and liabilities:		
Accounts receivable	(6,739)	--
Inventory	(9,837)	--
Prepaid expenses	--	20,000
Bank overdraft	--	(440)
Accounts payable	53,714	--
Net cash used for (provided by) operating activities	(51,254)	(2,594)
Cash flows from financing activities		
Advances from related party, net	41,600	4,500
Cash flows from investing activities		
Purchase of licenses	--	(10,000)
Increase (decrease in) cash and cash equivalents	(9,654)	(8,094)
Cash and cash equivalents, beginning of year	22,63	17,223
Cash and cash equivalents, end of year	\$13,009	\$9,129
Income taxes paid	\$---	\$---

Interest expense paid

\$---

\$---

See accompanying notes to financial statements

-6-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

**Note 1 - Background and Summary of Significant Accounting Policies**

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial statements and operating results for the periods presented. These financial statements should be read in conjunction with the Company's financial statements for the years ended November 30, 2006 and 2005 and notes thereto contained in the Company's Annual Report on Form 10-KSB for the year ended November 30, 2006 as filed with the SEC. The results of operations for the three months ended February 28, 2007 are not necessarily indicative of the results of the full fiscal year ending November 30, 2007.

**Background**

US Biodefense, Inc. (the "Company"), a Utah corporation is headquartered in the City of Industry, California. The Company is a registered government contractor with the Department of Defense Logistics Agency. The Company is focused on designing and developing homeland security and biodefense products.

The Company was originally incorporated under the name Teal Eye, Inc. in the state of Utah on June 29, 1983. The Company then merged with Terzon Corp. and amended its Articles of Incorporation to change the name to Terzon Corp. On September 7, 1984, the Company amended its articles of incorporation changing its name to Candy Stripers Corporation, Inc. On January 6, 1998, the Company amended its Articles of Incorporation changing its name to Piedmont, Inc. On May 31, 2003, the Company amended its articles of Incorporation and changed its name to US Biodefense, Inc.

The accompanying financial statements for the three months ended February 28, 2007, include the accounts of the Company and its wholly-owned subsidiary Stem Cell Research Institute, Inc. All significant intercompany transactions and balances have been eliminated.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company incurred a net loss for the three months ended February 28, 2007 of \$76,098 and at February 28, 2007, had an accumulated deficit of \$4,131,203. In addition, the Company generates minimal revenue from its operations.

These conditions raise substantial doubt as to the Company's ability to continue as a growing concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

-7-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

Management plans to take the following steps that it believes will be sufficient to provide the Company with the ability to continue in existence.

Management intends to raise financing through the issuance of its common stock or other means and interests that it deems necessary, with a view to moving forward with the development of the emergency preparedness, homeland security and biodefense products.

**Use of Estimates**

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

**Fair Value of Financial Instruments**

For certain of the Company's financial instruments, including cash and cash equivalents, prepaid expenses, accounts payable and deferred revenues, the carrying amounts approximate fair value due to their short maturities.

**Revenue Recognition**

The Company recognizes revenue from the sale of products, and from the performance of services to both related and non-related parties. The Company recognizes revenue from the sale of products on the gross amount charged basis. Under this method of recording the sale of products, the cost of goods sold reflects the cost of the goods sold to the customer plus the Company's cost of executing the transaction. the Company has chosen this method since it takes ownership of the products that it purchases for resale and assumes the risks and rewards of ownership of the goods.

For sale of products, revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the contract price is fixed or determinable, title and risk of loss has passed to the customer and collection is reasonably assured. The Company's sales are typically not subject to rights of return and, historically, sales returns have not been significant.

Revenues from services are recognized upon provision of services to the customer. Unearned service revenue is deferred and recognized ratably over the duration of the service term.

Accounts receivable of the Company are reviewed to determine if their carrying value has become impaired. The Company considers the assets to be impaired if the balances are greater than six months old management regularly reviews accounts receivable and will establish an allowance for potentially uncollectible amounts when appropriate. When accounts are written off, they will be charged against the allowance. Receivables are not collateralized and do not bear interest.

-8-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

**Concentration of Credit Risk**

Financial instruments which subject the Company to concentrations of credit risk include cash and cash equivalents.

The Company maintains its cash in well-known banks selected based upon management's assessment of the bank's financial stability. Balances may periodically exceed the \$100,000 federal depository insurance limit; however, the Company has not experienced any losses on deposits. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required.

**Cash Equivalents**

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalent.

**Inventory**

Inventory is stated at the lower of cost or market. Inventory consists of purchased items held for resale. Inventory will be monitored by Company management for excess and obsolete items, and will make the necessary valuation adjustment when required.

**Fixed Assets**

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which is generally 3 to 10 years. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income (expense).

The Company will periodically evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful lives of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. We use an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability.

### **Comprehensive Income**

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the three months ended February 28, 2007, the Company has items that represent other comprehensive income.

### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs totaled \$3,009 and \$-0- for the three months ended February 28, 2007 and 2006.

-9-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

### **Income Taxes**

The Company accounts for income taxes under SFAS 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### **Loss per Share**

In accordance with SFAS No. 128, "Earnings Per Share," the basic income / (loss) per common share is computed by dividing net income / (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted income per common share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As of February 28, 2006 and 2006, the Company does not have any equity or debt instruments outstanding that can be converted into common stock.

### **Stock-Based Compensation**

Effective January 1, 2006, the Company prospectively adopted FAS 123 R, Stock -Based Payments, and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107. Under this method, compensation cost recognized beginning January 1, 2006 will include costs related to all share-based payments granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of FAS 123 R. Compensation cost for stock options granted to employees is recognized ratably over the vesting period.

Prior to January 1, 2006, the Company measured compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. For non-employee stock based compensations, the Company recognizes expense in accordance with



FAS 123 and values the equity securities based on the fair value of the security on the date of grant.

### **Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation costs relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value based method

-10-

---

### **US Biodefense, Inc. Notes to Financial Statements**

In March, 2005, the SEC issued guidance on FASB SFAS 123R, "*Share-Based Payments*" ("SFAS No. 123R"). Staff Accounting Bulletin No. 107 ("SAB 107") was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123R while enhancing the information that investors receive. SAB 107 creates a framework that is premised on two themes: (a) considerable judgment will be required by preparers to successfully implement SFAS no. 123R, specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB 107 include (a) valuation models - SAB 107 reinforces the flexibility allowed by SFAS No. 123R to choose an option-pricing model that meets the standard's fair value measurement objective; (b) expected volatility - SAB 107 provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility; and (c) expected term - the new guidance includes examples and some simplified approaches to determining the expected term under certain circumstances. The Company will apply the principles of SAAB 107 in conjunction with its adoption of SFAS No. 123R.

In June, 2005, the Emerging Issues Task Force (EAT) issued No. 05-06, "*Determining the Abort-inaction Period of Leasehold Improvements Acquired in a Business Combination*" (EAT No. 05-06). EAT No. 05-06 provides that the amortization period for leasehold improvements acquired in a business combination or purchased after the inception of a lease to be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition of the purchase. The guidance in EAT No. 05-06 will be applied prospectively and is effective for periods beginning after June 29, 2005. The Company does not believe its adoption will have a material impact on its consolidated results of operations or financial position.

In June, 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "*Accounting Changes and Error Corrections - a replacement of APB No. 20 and FAS No. 3*" ("SFAS No. 154"). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and

error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specify to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application of a change in a accounting principle is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial is also addressed by SFAS No. 154. SFAS No. 154 is required to be adopted in fiscal years beginning after December 15, 2005. The Company does not believe its adoption in fiscal year 2007 will have a material impact on its results of operations or financial position.

In February, 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155), which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in the fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on the Company's financial position, results of operations or cash flows.

-11-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

In March, 2006, the FASB issued SFAS No. 156 "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 156"). This statement was issued to simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. The statement addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify hedge-like (offset) accounting. SFAS 156 clarifies when an obligation to service financial assets should be separately recognized (as servicing asset or liability), requires initial measurement at fair value and permits an entity to select either the Amortization Method of the Fair Value Method. This statement is effective for fiscal years beginning after September 15, 2006. The Company does not expect it adoption of this new standard to have a material impact on the Company's financial position, results of operations or cash flows.

In July, 2006, the FASB issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48"), which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company does not expect that the implementation of FIN 48 will have a material impact on its financial position, results of operations or cash flows.

In September, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in generally accepted accounting

principles, and expands disclosures about fair value measurements. SFAS 157 is effective in fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of this statement will have on the Company's consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Pension and Other Postretirement Plans." This Statement requires recognition of the funded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position. Funded status is determined as the difference between the fair value of plan assets and the benefit obligation. Changes in that funded status should be recognized in other comprehensive income. This recognition provision and the related disclosures are effective as of the end of the fiscal year ending after December 15, 2006. The Statement also requires the measurement of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position. This measurement provision is effective for fiscal years ending after December 15, 2008. The Company does not expect its adoption of this new standard to have a material impact on the Company's financial position, results of operations or cash flows.

On September 13, 2006 the Securities and Exchange Commission ("Sec") issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect this pronouncement to have a material impact on the Company's financial statements.

-12-

---

**US Biodefense, Inc.**  
**Notes to Financial Statements**

**Note 2 - Marketable Securities Available For Sale**

On May 11, 2005, the Company entered into an agreement with a Partner. The Company will assist the Partner in identifying opportunities for commercialization of their listed technologies, while maintaining the confidentiality of the Partner.

As compensation for providing these services, the Partner gave the Company 5,000,000 shares of Section 144 stock which is restricted from sale for twelve months from date of issue, May 11, 2005. The agreement is for a period of twenty four months.

The Company recorded the stock at the value of the services to be provided which is estimated to be \$100,000. The Company recorded revenue for the six month period from May through November, 2005 in the amount of \$25,000, \$50,000 for the year ended November 30, 2006, and \$12,500 for the three months ended February 28, 2007. The balance of \$12,500 is included as deferred revenues on the balance sheet.

The Company has adopted SFAS 130 as required by the Financial Accounting Standards Board. SFAS 130 requires that securities that are available for sale be presented at market value on the balance sheet date. Unrealized gains and losses are recognized as a separate component of stockholders' equity. The specific identification method is used in calculating realized gains and losses. SFAS 30 also requires a statement of comprehensive income which adjusts net income for the unrealized activity. At November 30, 2006, the fair market value of common equity securities with a cost of \$100,000 was \$73,000. The unrealized loss of \$27,000, is included as a

component of other comprehensive income.

**Note 3 - Licenses**

The Company has agreed to exercise options to license stem cell technology through the University of British Columbia under two option agreements.

Having passed the initial validation phase, the Company is working toward a full licensing relationship and will begin pre-clinical analysis of how the cell line can be utilized. The Company is considering investigating the stem cells applications in combating ALS and Parkinson's disease.

The licenses are for periods of ten to twenty years. The Company will review the licenses at least annually. When necessary, we record changes for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of the respective asset.

As of August 31, 2006, the Company management determined that the value of the licenses had become impaired since the Company was no longer pursuing stem cell research. This determination was based on the resignation of the head of the Company's stem cell research department and the inability to locate a replacement at an economically feasible compensation package. The resignation was effective during the Company's third quarter.

Balance, May 31, 2006	\$	30,000
Additions		2,500
License balance due, but cancelled		(10,000)
	\$	22,500

-13-

**US Biodefense, Inc.**

**Notes to Financial Statements**

The Company had accrued expenditures related to the stem cell technology licenses in the amount of \$79,167. These expenditures related to the second stage of licensing, after the initial evaluation phase. Since the Company is no longer pursuing stem cell research, the second stage will not be undertaken, and the related liabilities have been recorded as forgiveness of debt, and is included as a reduction of total expenses on the Company's Statement of Operations.

**Note 4 - Property and Equipment**

Property and equipment consists of the following at February 28, 2007:

Furniture and fixtures (at cost)	\$	2,477
Accumulated depreciation		(265)
		2,212

**Note 5 - Comprehensive income**

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities are reported as a separate component of the equity section

## Edgar Filing: US BIODEFENSE INC - Form 10QSB

of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects for the year ended November 30, 2006 are unrealized holding loss on available for sale securities in the amount of \$27,000.

### Note 6 - Income Taxes

The income tax provision reflected in the statement of operations consists of the following components for the year ended November 30, 2006:

Current income taxes payable:	
Federal	\$(8,780)
State	(816)
	(9,596)

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes as follows:

	<u>Amount</u>	<u>Impact on Rate</u>
Income tax at federal rate	(72,812)	35.00%
State tax, net of federal effect	(12,825)	6.00%
Net operating loss deduction	78,041	-45.00%
	(9,596)	-4.00%

### Note 7 - Earnings per share

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period.

-14-

---

## US Biodefense, Inc. Notes to Financial Statements

### Note 9 - Acquisition

On August 7, 2006, the Company acquired 100% of the outstanding stock of Emergency Disaster Systems, Inc. (EDS) a retailer of emergency disaster equipment. EDS was incorporated on July 17, 2006, by its majority stockholder who had been in the disaster preparedness industry for over seventeen years experience. The Company paid \$25,000 in cash for the stock. The Company has recorded the transaction as follows:

Inventory	\$ 17,50
Customer list	7,500
	\$ 25,000

### Note 10 - Common Stock Transactions

During the year ended November 30, 2006, the Company issued 2,000,000 shares of common stock and received proceeds of \$200,000.

## Edgar Filing: US BIODEFENSE INC - Form 10QSB

During the year ended November 30, 2006, the Company issued 6,755,000 shares of common stock to two entities as consulting fees totaling \$270,200. The shares were issued as follows:

<u>Date Issued</u>	<u>Shares Issued</u>	Value per Share \$	<u>Valuation method</u>	Total \$
June 8, 2006	10,000	0.04	Performance commitment date	400
June 20, 2006	100,000	0.04	Performance commitment date	4,000
June 29, 2006	125,000	0.04	Performance commitment date	5,000
July 5, 2006	20,000	0.04	Performance commitment date	800
July 12, 2006	500,000	0.04	Performance commitment date	20,000
July 24, 2006	1,000,000	0.04	Performance commitment date	40,000
July 25, 2006	1,000,000	0.04	Performance commitment date	40,000
August 1, 2006	2,000,000	0.04	Performance commitment date	80,000
August 31, 2006	2,000,000	0.04	Performance commitment date	80,000
	6,755,000			270,200

The Company applies the provisions of EITF 96-18, "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring , or in conjunction with Selling Goods or Services" (EITF 96-18) for our non-employee stock-based awards. Under EITF 96-18, the measurement date at which the fair value of the stock-based award is measured is equal to the earlier of (1) the date at which a commitment for performance by the counterparty to earn the equity instrument is reached or (2) the date at which the counterparty's performance is complete. We recognize stock-based compensation expense for the fair value of the vested portion of the non-employee awards in our statements of operations. The performance commitment date was July 18, 2006.

-15-

### Item 2. Management's Discussion and Plan of Operation

#### *Forward-Looking Statements*

This Quarterly Report contains forward-looking statements about US Biodefense, Inc.'s business, financial condition and prospects that reflect management's assumptions and beliefs based on information currently available. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of our management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, UBDE's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within our control and that may have a direct bearing on operating results include, but are not limited to, acceptance of our services, our ability to expand our customer base, management's ability to raise capital in the future, the retention of key employees and changes in the regulation of our industry.

There may be other risks and circumstances that management may be unable to predict. When used in this Quarterly Report, words such as, "believes," "expects," "intends," "plans," "anticipates," "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions.

## Overview

We were incorporated in the State of Utah on June 29, 1983, under the name Teal Eye, Inc. We merged with Terzon Corporation and changed our name to Terzon Corporation in 1984. We subsequently changed our name to Candy Strippers Candy Corporation. We were engaged in the business of manufacturing and selling candy and gift items to hospital gift shops across the country. We were traded Over-the-Counter Bulletin Board for several years. In 1986 we ceased the candy manufacturing operations and filed for Chapter 11 Bankruptcy protection. After emerging from Bankruptcy in 1993, we remained dormant until January 1998, when we changed our name to Piedmont, Inc. On May 13, 2003, we filed an amendment to our Articles of Incorporation to change our name from Piedmont, Inc. to US Biodefense, Inc. We are a registered government contractor with the Department of Defense Logistics Agency that is focused on designing and developing homeland security and biodefense products.

During the year ended November 30, 2006, we impaired various licenses related to our stem cell research operations. This impairment was due to the resignation of our stem cell research department head and our inability to engage a replacement. As a result, we do not intend to continue to pursue stem cell research initiatives. However, we do intend to continue to evaluate additional biological research programs for the possibility of commercialization.

On August 7, 2006, we completed the acquisition of Emergency Disaster Systems, Inc., a California corporation incorporated on July 19, 2006. EDS provides mitigation services, emergency preparedness, and first response products to communities, government agencies, corporations and healthcare organizations. We purchased a 100% interest in EDS for an aggregate of \$25,000 in cash. The EDS system, encompassing CERT bags, containers and cabinets was initially designed and originated by Charles Wright in 1989 to provide earthquake preparedness supplies to communities in California. EDS provides mitigation services, emergency preparedness, and first response products to communities, government agencies, corporations and healthcare organizations. The basic kits contain a three day supply of food and water rations, in addition to first aid, lighting, hygiene and personal care items and can be scaled for individual use or for a family. EDS also sells a stand-alone emergency radio siren product. We believe these items help mitigate a person's vulnerability to disasters such as fires, floods and earthquakes. EDS currently serves Emergency Medical Services and mass casualty rapid response systems, as well as local communities, government agencies and Fortune 500 companies with innovative emergency preparedness technology, systems and services. Charles Wright, with his 18 years of experience, currently serves as Vice President and Director of Emergency Disaster Systems, Inc., which is a wholly-owned subsidiary of US Biodefense.

-16-

---

## Results of Operations

### Revenues

Our revenues are derived primarily from three sources: sales of tangible products, services and related parties. Sales of tangible products are attributable solely to Emergency Disaster Systems, Inc., our wholly-owned subsidiary that we acquired on August 7, 2006. Revenue from services is derived from the recognition of deferred revenues from stock received in advance for services to be performed by us to Diamond I. Finally, revenue from related parties is solely from our October 15, 2005 contract with Financialnewsusa.com, a related party, to provide biodefense-related industry news and information to them in exchange for \$40,000, for which we were paid in advance the entire balance of the contract.

During the three months ended February 28, 2007, we generated aggregate revenues of \$101,354, compared to total revenues of \$20,000 during the year ago three month period ended February 28, 2007. This 407% increase in total revenues, or \$81,354, is materially attributable to the acquisition of EDS in the third quarter of 2006, which contributed \$88,854 in revenues from sales of tangible products during the three month period ended February 28, 2007, as opposed

## Edgar Filing: US BIODEFENSE INC - Form 10QSB

to \$0 in the year ago period ended February 28, 2006.

Revenues from services realized during the quarter ended February 28, 2007 were \$12,500, all of which is related to our arrangement to identify technology commercialization opportunities for Diamond I to research universities, government laboratories and third member private parties. We did not realize any revenues from services in the quarter ended February 28, 2006.

For the three month period ended February 28, 2007, we did not recognize any revenues from related parties. During the three months ended February 28, 2006, we realized \$20,000 in revenues from our agreement with Financialnewsusa.com, a related party, to which we provided biodefense-related industry news and information. The substantial decrease of is due to the expiration of our agreement with that related entity.

### **Gross Profit**

In association with sales of tangible products related specifically to our EDS operations, we incurred cost of goods sold in the amount of \$60,515 during the three months ended February 28, 2007. This amount represents a margin of approximately 46% on sales of tangible products, and a gross margin of 40% on total revenues. After factoring cost of goods sold, our gross profit was \$40,839 during the three months ended February 28, 2007. In the year ago period ended February 28, 2006, we did not incur any cost of goods sold, as we did not sell any tangible items. Resultantly, our gross profit for the quarter ended February 28, 2006, was \$20,000.

### **Expenses**

Total expenses for the three month period ended February 28, 2007 were \$116,937, consisting solely of general and administrative expenditures. In the comparable year ago period ended February 28, 2006, we incurred total expenses of \$22,154. Aggregate expenses increased approximately 428%, or \$94,783, from year to year due primarily to our incurring expenses during the period ended February 28, 2007 not previously incurred in the period ended February 28, 2006.

We paid related parties a total of \$3,000 during the period ended February 28, 2006 for miscellaneous expenses, such as professional fees, expense reimbursements and other general costs. In the most recent quarter ended February 28, 2007, we did not incur any related party expenses.

During the year ended November 30, 2006, we impaired assets related to our intellectual property licenses, as we determined that the value of the licenses had become impaired since we were no longer pursuing stem cell research. This determination was based on the resignation of the head of our stem cell research department and the inability to locate a replacement at an economically feasible compensation package. Further to this decreased pursuit of stem cell research, our research and development costs have decreased substantially from \$12,866 in the quarter ended February 28, 2006 to nothing in the most recent quarter ended February 28, 2007.

-17-

---

General and administrative expenses increased substantially by 1,760%, or \$110,649, year over year from \$6,288 in the quarter ended February 28, 2006 to \$116,937 in the three months ended February 28, 2007. Our management believes the rise in these expenditures are correlated with our increased business activities and ongoing pursuit of our business objectives. General and administrative expenses mainly consist of office expenditures such as postage and delivery fees, supplies and other similar miscellaneous items. We expect to continue to incur general and administrative expenses for the foreseeable future, although we cannot estimate the extent of these costs.

We expect to continue to incur expenditures in the foreseeable future related to ongoing research and



## Edgar Filing: US BIODEFENSE INC - Form 10QSB

development and the expansion of our business operations. As we continue to pursue research and development efforts, we expect expenses to stabilize over the next several years. Unfortunately, we cannot accurately estimate the extent or impact of ongoing expenses.

### Losses

Our loss before accounting for income taxes totaled \$76,098 for the three months ended February 28, 2007, compared to a loss before income taxes of \$2,154 in the prior period ended February 28, 2006. As we did not recognize any income taxes in the most recent period, nor in the year ago three month period ended February 28, 2006, our net loss from operations totaled \$76,098 for the three months ended February 28, 2007 and \$2,154 for the three months ended February 28, 2006. This represents a widening deficit of 3,433%, or \$73,944, in a year-to-year comparison. Although we anticipate incurring ongoing operating losses, we expect these losses to narrow in year-to-year comparison as we generate increased revenues and as expenses begin to plateau over the next several years. However, we cannot guarantee the accuracy of our expectations.

### Liquidity And Capital Resources

We have limited cash on hand, and may be unable to continue operations for the next at least 12 months if we are unable to generate revenues or obtain capital infusions by issuing equity or debt securities in exchange for cash. As of February 28, 2007, we had \$13,009 in cash, \$61,566 in net accounts receivables and \$85,192 in saleable inventory. If we are unable to generate sufficient cash flows from sales of our products and services, collect outstanding accounts receivable, or to obtain capital through issuances of equity or debt, David Chin, a shareholder and President of our company, has verbally agreed to loan us cash, which shall bear no interest and be due upon demand. Through February 28, 2007, David Chin loaned us a total of \$41,600 to pay for general and administrative expenses. The loan bears no interest and is due upon demand. As of February 28, 2007, the amount owed was \$41,600. We have no formal written agreement with Mr. Chin for any further loans, and we cannot guarantee you that we will be able to enforce our verbal agreement. Notwithstanding this, there can be no assurance that we will be able to secure additional funds in the future to stay in business. Our independent registered public accountants have expressed substantial doubt about our ability to continue as a going concern because we have limited operations.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on our revenues from continuing operations.

Our management does not anticipate the need to hire additional full- or part- time employees over the next 12 months, as the services provided by our officers and directors appear sufficient at this time. We believe that our operations are currently on a small scale that is manageable by a few individuals. While we believe that the addition of employees is not required over the next 12 months, we intend to hire independent contractors to perform research activities and market any potential products and services we may develop.

We do not have any off-balance sheet arrangements.

We currently do not own any significant plant or equipment that we would seek to sell in the near future.

We have not paid for expenses on behalf of any of our directors. Additionally, we believe that this fact shall not materially change.

## Edgar Filing: US BIODEFENSE INC - Form 10QSB

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon their evaluation as of the end of the period covered by this report, David Chin, who serves as our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures are not effective to ensure that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

Our board of directors was advised by E. Randall Gruber, CPA, PC, our independent registered public accounting firm, that during their performance of audit procedures for 2006 E. Randall Gruber, CPA, PC identified a material weakness as defined in Public Company Accounting Oversight Board Standard No. 2 in our internal control over financial reporting.

This deficiency consisted primarily of inadequate staffing and supervision that could lead to the untimely identification and resolution of accounting and disclosure matters and failure to perform timely and effective reviews. However, our size prevents us from being able to employ sufficient resources to enable us to have adequate segregation of duties within our internal control system. Our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures.

### PART II - OTHER INFORMATION

#### Item 6. Exhibits and Reports on Form 8-K

- |    |  |
|----|--|
| 3  | Articles of Incorporation & By-Laws  |
|    | a. Articles of Incorporation of Teal Eyes, Inc. *                                  |
|    | b. Amendment to Articles of Incorporation of Teal Eyes, Inc. *                     |
|    | c. Amendment to Articles of Incorporation of Terzon Corporation. *                 |
|    | d. Amended and Restated Articles of Incorporation of Candy Stripers Candy Corp. *  |
|    | e. By-Laws of the Company. *   |
|    | f. Certificate of Amendment to Articles of Incorporation filed May 13, 2003 **     |
| 10 | Material Contracts   |
|    | a. Stock Purchase Agreement with Charles Wright ***                                |
|    | b. Stock Purchase Agreement with Equity Solutions ***                              |
|    | c. Consulting Agreement with Charles Wright ****                                   |
| 31 | Rule 13a-14(a)/15d-14(a) Certifications  |
| 32 | Certification under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350) |

\* Incorporated by reference herein filed as an exhibit to Form 10SB12G filed on September 1, 2000.

\*\* Incorporated by reference herein filed as Exhibit 3 to Form 10-QSB filed on July 15, 2003.

\*\*\* Incorporated by reference herein filed as an exhibit to Form 8-K filed on August 14, 2006

\*\*\*\* Incorporated by reference herein filed as an exhibit to Form 8-K filed on August 30, 2006

#### FORM 8-K

Date Filed	Item(s) Reported
------------	------------------

Edgar Filing: US BIODEFENSE INC - Form 10QSB

02/21/2007

Items 2.01 and 9.01

This was filed as an amendment to the Form 8-K filed on 08/14/2006

-19-

---

**SIGNATURES**

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

**US BIODEFENSE, INC.**

(Registrant)

April 19, 2007

Signed:	/s/ David Chin	President and
Print:	David Chin	Director
Signed:	/s/ David Chin	Secretary and
Print:	David Chin	Director
Signed:	/s/ David Chin	Treasurer and
Print:	David Chin	Director

-20-

---