US BIODEFENSE INC
Form 10QSB
April 28, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: February 28, 2005
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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
13674 E. Valley Blvd. City of Industry, CA	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 [X] 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: 10,101,349

US Biodefense, Inc.

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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 Registration Statement on Form 10-KSB previously filed with the Commission on April 15, 2005, and subsequent amendments made thereto.

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

US Biodefense, Inc.

Balance Sheet

February 28, 2005 and February 29, 2004

(Unaudited)

ASSETS	2005	2004
Current assets		
Cash and cash equivalents	$49,325	$----
Prepaid services - Related party	----	10,000
Prepaid services	----	12,000
Prepaid expenses	400	----
Total current assets	49,725	22,000
Total assets	49,725	22,000
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	5,100	99
Notes payable - Related party	4,313	3,500
Deferred revenues	8,333	----
Total current liabilities	17,746	3,599
Total liabilities	17,746	3,599
Stockholders equity:		
Common stock, $0.001 par value, 100,000,000 shares authorized, $.0001 par value, 10,101,349 share issued and outstanding	10,101	10,101
Additional paid in capital	3,793,289	3,793,289

Accumulated deficit	(3,771,411)	(3,784,989)
Total stockholders equity (deficit)	31,979	18,491
Total liabilities and stockholders equity (deficit)	$49,725	$22,000

See accompanying note to financial statements

US Biodefense, Inc.

Statements of Operations

For the three months ended February 28, 2005 and February 29, 2004

(Unaudited)

	2005	2004
Revenues	$62,500	$---
General & administrative expenses	38,557	3,599
General & administrative expenses - Related party	---	15,000
Total expenses	38,557	(18,599)
Net loss	$23,943	$(18,599)
Weighted average number of shares outstanding	10,101,349	10,101,349
Basic and diluted net loss per common share	$(0.00)	$(0.00)

See accompanying note to financial statements

US Biodefense, Inc.

Statement of Cash Flows

For the three months ended February 28, 2005 and February 29, 2004

(Unaudited)

	2005	2004
Cash flows from operating activities		
Net income (loss)	$23,943	$(18,599)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for payroll - Related party		
Stock issued for prepaid payroll - Related party		
Stock issued for prepaid services		
Changes in operating assets and liabilities:		
Prepaid expenses	(400)	15,000
Accounts payable	4,724	99
Deferred revenues	(12,500)	---
Notes payable - Related party	---	3,500
Net cash used by operating activities	15,767	---
Increase in cash and cash equivalents	15,767	---
Cash and cash equivalents, beginning of year	33,558	---
Cash and cash equivalents, end of year	$49,325	$---

See accompanying note to financial statements

US Biodefense, Inc.

Notes to Financial Statements

Note 1 - Background and Summary of Significant Accounting Policies

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.

Following is a summary of the Company's significant accounting policies.

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 had an accumulated deficit of $3,771,411 at February 28, 2005. In addition, the Company generate 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.

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 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.

US Biodefense, Inc.

Notes to Financial Statements

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

Revenue is recognized when services are performed or products are delivered. The cost of shipping and handling are charged directly to cost of sales at the time of shipment. Sales are recorded net of returns, discounts and allowances.

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.

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, 2005 and February 29, 2004, the Company has no items that represent other comprehensive income, and accordingly, has not included a schedule of comprehensive income in the financial statements.

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs for the three month periods ended February 28, 2005 or February 29, 2004.

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.

US Biodefense, Inc.

Notes to Financial Statements

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 2005 and February 29, 2004, the Company does not have any equity or debt instruments outstanding that can be converted into common stock.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the excess, if any, on the date of the grant of the deemed fair value of the Company's shares over the employee's exercise price. When the exercise price of the employee share options is less than the fair value price of the underlying shares on the grant date, deferred stock compensation is recognized and amortized to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options. Accordingly, because the exercise price of the Company's employee options equals or exceeds the market price of the underlying shares on the date of grant, no compensation expense is recognized. Options or shares awards issued to non-employees are valued using the fair value method and expensed over the period services are provided.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the carrying value of a long-lived asset, including associated intangibles, may be impaired, an evaluation of recoverability is performed by comparing the estimated future undiscounted cash flows, associated with the asset or the asset's estimated fair value to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required.

Note 2 - Notes Payable (Including Related Parties)

As of February 28, 2005, an officer and director of the Company loaned the Company a total of $4,313 to pay for general and administrative expenses. The loan bears no interest and is due upon demand. As of February 28, 2005, the amount owed is $4,313.

Note 3 - Deferred Revenues (Including Related Parties)

On May 1, 2004, the Company entered into an agreement with Financialnewsusa.com, Inc., to develop content for its'
Biodefense Industry News. Financialnewsusa.com, Inc. is a related party due to a common officer and director. The term of the agreement is for twelve months. Financialewsusa.com, Inc. paid a total of $50,000 for these services. As of February 28, 2005 $8,333 is reflected as revenues received in advance and will be amortized ratably over the service period.

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, managements 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 Stripers 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 ad developing homeland security and biodefense products.

Results of Operations

Revenues

Our revenues totaled $62,500 for the first quarter ended February 28, 2005, compared to $0 for the three months ended February 28, 2005. Revenues for the current fiscal year were attributable solely to the May 1, 2004 agreement with Financialnewsusa.com, a related party, to provide consulting services to them in exchange for $50,000, for which we were paid in advance the entire balance of the contract. As of February 28, 2005, we had realized revenue in the amount of $62,500 and deferred revenue of $8,833. We cannot guarantee that we will be able to attract future customers and continue to generate sales. In the year ago period, we did not generate any revenues.

Expenses

Total expenses for the three months ended February 28, 2005 were $38,557, consisting solely of general and administrative expenses. For the three months ended February 29, 2004, we incurred expenses of $18,599, all of which was considered general and administrative, and $15,000 paid to a related party.

The related party expenses are attributable to the April 1, 2003 employment agreement with David Chin, an officer and director. In accordance with this employment agreement, we issued 9,000,000 shares of our common stock valued at $135,000. We recognized $15,000 as an expense in the three months ended February 29, 2004. The entire balance was expensed in the year ended November 30, 2004, therefore, no expense was recognized in the current quarter ended February 28, 2005.

On November 8, 2004, we entered into a Commercial Evaluation License Agreement with the United States Public Health Service within the Department of Health and Human Services. We paid $3,500 for a six month nonexclusive license to evaluate the suitability for commercial development of cellular and viral inactivation.

We expect to continue to use shares of our common stock to pay for future expenses to preserve capital. Additionally, we expect to continue to incur general and administrative expenses for the foreseeable future, although we cannot estimate the extent of such expenses.

Net Income (Loss)

We realized $23,943 in net income for the most recent quarter ended February 28, 2005. In comparison, we incurred a net loss from operations in the amount of $18,599 in the year ago three month period. The key factor providing this change: namely, we recognized revenues in the current period, as opposed to not generating any revenues in the three months ended February 29, 2004.

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. If we are unable 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. As of February 28, 2005, David Chin loaned us a total of $4,313 to pay for general and administrative expenses. The loan bears no interest and is due upon demand. As of February 28, 2005, the amount owed is $4,313. 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 principal 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.

Item 3. Controls and Procedures

Within 90 days prior to the date of filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and our Chief Financial Officer, of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are ineffective for the gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

Our management does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Section 10A of the Securities Exchange Act of 1934, as amended requires that the independent auditor utilize procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts, and identify related party transactions that are material to the financial statements or otherwise require disclosure.

Section 402 of the Sarbanes Oxley Act of 2002 makes it unlawful for public companies to directly or indirectly extend or maintain credit, or arrange for the extension of credit to their executive officers or directors. The scope of the prohibition on personal loans to executive officers and directors is not clear at this time, and there is little legislative history about Section 402 and the SEC has not yet issued any interpretive guidance concerning Section 402.

We have reviewed all arrangements with their directors and executive officers to determine if any could fall within the scope of a personal loan. At various times during the year ended November 30, 2004, we advanced loans to our President. There were three loans which ranged in amount from $30,000 to $45,000. All three loans were repaid within 60 days of issuance. As of November 30, 2004 there were no loans outstanding. The loans were issued to cover the cost of anticipated business expense and were re-paid timely and promptly. We have now established a clear policy that prohibits directors and executive officers from using advances, and other business loans for personal purposes.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On January 26, 2005, we held a special meeting of shareholders that was called to order by the holders of a majority of our voting securities. At such meeting, 9,097,373 shares (90% of the issued and outstanding voting common stock of our company) voted to authorize our board of directors to implement a forward stock split of our common stock on the basis of three shares for each one share. There were 1,003,976 absentee shares. All shares present at such meeting voted in favor of the stock split.

There is no statutory, judicial, or administrative authority directly addressing the characterization of the notes.

- § You agree with us (in the absence of a statutory, regulatory, administrative, or judicial ruling to the contrary) to characterize and treat the notes for all tax purposes as pre-paid derivative contracts in respect of the Index.
- § Under this characterization and tax treatment of the notes, a U.S. holder (as defined beginning on page 27 of the prospectus) generally will recognize capital gain or loss upon the sale or maturity of the notes. This capital gain or loss generally will be long-term capital gain or loss if you held the notes for more than one year.
- § No assurance can be given that the Internal Revenue Service or any court will agree with this characterization and tax treatment.

You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should review carefully the discussion under the section entitled “U.S. Federal Income Tax Summary” beginning on page PS-33 of product supplement EQUITY INDICES SUN-1.

Where You Can Find More Information

We have filed a registration statement (including a product supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the “Market-Linked Investments”) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance.

Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.