NANOBAC PHARMACEUTICALS INC
Form 10KSB/A
June 17, 2005

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

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**FORM 10-KSB/A**
Amendment to Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended
**December 31 2004**

**Nanobac Pharmaceuticals, Incorporated**
(Exact name of registrant as specified in its charter)

| **Florida** | **0-24696** | **59-3248917** |
|---|---|---|
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (I.R.S. Employer Identification Number |

**2727 W. Dr. Martin Luther King Jr. Blvd, Suite 850, Tampa, Florida 33607**
(Address of Principal Executive Office) (Zip Code)

**(813) 264-2241**
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:
**Common Stock, without par value**
(Title of Class)

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 a 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 o No x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/Aor any amendment to this Form 10-KSB/A. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes o No x

State issuer's revenue for its most recent fiscal year: $358,361

The approximate aggregate market value of voting and non-voting stock held by non-affiliates of the registrant was $9,183,809 as of June 15, 2005. The shares of Common Stock held by each current executive officer and director and by each person who is known to the Company to own 5% or more of the outstanding Common Stock have been excluded from this computation on the basis that such persons may be deemed affiliates. The determination of affiliate status is not a conclusive determination for other purposes.

As of June 15, 2005 there were 187,340,093 shares of the Registrant's Common Stock outstanding.

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**Nanobac Pharmaceuticals, Incorporated**

**Form 10-KSB/A**
**For the Year Ended December 31, 2004**

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**Amendment Number 1**

In response to the Securities and Exchange Commission's periodic review of our filings under the Securities Exchange Act of 1934, the undersigned registrant hereby files Amendment No. 1 to amend the following Items with respect to its Annual Report on Form 10-KSB/A for the year ended December 31, 2004:

**Item 7**

We have amended Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations," to: (1) exclude non-GAAP information from the section titled “Selling, General and Administrative” and to revise the description to enhance the description of the components of this financial statement line item. And (2) to revise the section titled “Loss from continuing operations” to add a description for the following:

- the manner in which we use a non-GAAP measure to conduct or evaluate our business;
- the economic substance behind our decision to use such a measure;
- the material limitations associated with the use of the non-GAAP financial measure as compared to the use of the most directly comparable GAAP financial measure; and
- the substantive reasons why we believe the non-GAAP financial measure provides useful information.

**Item 15**

We have amended footnote 1 to our financial statements for the years ended December 31, 2004 and 2003 to correct the presentation of “Net loss per share”.


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## PART II

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

During calendar 2004, and for the foreseeable future, our primary focus is on the research of the role Nanobacteria plays in human diseases in which pathologic calcification deposits are found. Since the beginning of 2004, there have been an increasing number of studies linking Nanobacteria to serious health problems, including cardiovascular diseases, peripheral vascular diseases, prostatitis, kidney stones, and Polycystic Kidney Disease. These studies have provided additional evidence of a relationship between Nanobacteria and these diseases in which pathological calcification is present. Our focus is in determining how Nanobacteria works and what countermeasures can be developed to better treat these diseases.

Recently we signed a collaborative agreement with the Mayo Foundation for Medical Education and Research to conduct research relating to the prevalence and treatment of nanobacteria in specific disease populations. The parties will evaluate the role of nanobacteria through four studies utilizing diagnostic test kits developed by Nanobac.

We continue with our collaborative efforts with scientists at NASA researching the effects of Nanobacteria in the formation of kidney stones under conditions simulating space flight. We also signed a collaborative agreement with Iowa State University to work with the Department of Geological and Atmospheric Sciences to explore novel methodologies for detecting calcified nano-particles which may be related to nanobacteria.

While there remains significant work ahead, we are encouraged by the progress being made in the study of Nanobacteria and the increasing level of acceptance in the medical community that there may be a relationship between the nano-particles we call Nanobacteria and the progression of certain diseases involving pathologic calcification. Our continuing research and development efforts, along with our efforts in obtaining recognition by various regulatory agencies (e.g. the FDA and similar agencies throughout the world), will require significant additional amounts of financing over the next several years.

We are attempting to protect the intellectual property rights to our discoveries including our treatment therapies and our diagnostic methods by obtaining patents. We currently have one issued patent and multiple patent applications for treatment therapies including the combination of EDTA and tetracycline to treat nanobacteria infections and the formula mix and treatment regimen for Nanobac Supplements, We also have one issued patent and multiple patent applications related to our diagnostic products We are attempting to further protect our intellectual property rights by obtaining additional patents in unique areas of research with respect to the role of Nanobacteria in pathologic calcification. These efforts are ongoing and will require significant additional infusions of financing to complete. It is also anticipated that additional patents will be sought in the future as our research and development efforts yield new discoveries.

We began direct sales of our Nanobac Supplements in June 2004. Nanobac Supplements are currently being marketed to the alternative medicine market and directly to the customer over the Internet. We anticipate that the Nanobac Supplements are the first generation of treatment therapies that we will develop and that the portfolio of treatments will increase as a result of our continuing research into the effect of Nanobacteria in numerous diseases.

During calendar 2004, our two diagnostic tests have gained additional recognition for their ability to identify Nanobacteria. We plan to initiate marketing our diagnostic testing kits in Europe during the first half of 2005.

During April 2004, we announced a name change from Nanobac Pharmaceuticals, Incorporated to Nanobac Life Sciences, Inc. to become effective upon approval by the shareholders.

**Results of Operation**

The following table presents the percentage of period-over-period dollar change for the line selected items in our Consolidated Statements of Operations for the years ended December 31, 2004 and 2003. These comparisons of financial results are not necessarily indicative of future results.

| | Year ended December | | |
|---|---|---|---|
| | 2004 | 2003 | % Change |
| Revenue | $ 358,361 | $ 482,815 | -26% |
| Cost of revenue | 100,470 | 333,122 | -70% |
| | | | |
| Gross Profit | 257,891 | 149,693 | 72% |
| Gross Profit percentage | 72% | 31% | |
| | | | |
| Selling, general and administrative | 4,765,841 | 2,128,375 | 124% |
| Research and development | 2,375,363 | 540,426 | 340% |
| Depreciation and amortization | 717,070 | 181,103 | 296% |
| | | | |
| Operating loss | (7,600,383) | (2,700,211) | 181% |
| | | | |
| Other income (Expense) | (217,127) | (60,922) | 256% |
| | | | |
| Loss from continuing operations | (7,817,510) | (2,761,133) | 183% |
| | | | |
| Discontinued Operations | (57,268) | (938,358) | -94% |
| | | | |
| Net loss | ($7,874,778) | ($3,699,491) | 113% |

**2004 Compared to 2003**

**Revenue**

Revenue for the years ended December 31, 2004 and 2003 is summarized as follows:

| | 2004 | 2003 |
|---|---|---|
| Nanobac Supplements | $ 230,321 | $ 0 |
| License revenue | 46,800 | 0 |
| Nanobac TX | 0 | 407,242 |
| Diagnostic Products | 81,240 | 75,573 |
| | | |
| | $ 358,361 | $ 482,815 |

During December 2003, we voluntarily discontinued offering NanobacTX, which accounted for 84% of our revenue for the year ended December 31, 2003. Accordingly, our revenue for the first half of 2004 was significantly reduced from the level experienced in the last half of 2003. During February 2004, we licensed a new product to an affiliated third party. Effective June 2004, the above license agreement was cancelled and we initiated sales of this product directly to customers under the name of Nanobac Supplements. We are in the process of accelerating our research and developing new products for better patient acceptance.

Revenue for the last quarter of 2004 averaged approximately $45,000 per month. Revenue for the year ended December 31, 2003 represents seven months of sales subsequent to our acquisition of LABS in June 2003.

**Cost of revenue**

Cost of revenue consists of direct materials, testing services (for diagnostic products) and shipping. As a percentage of revenue, cost of revenue was 28% for the year ended December 31, 2004 compared to 69% for the year ended December 31, 2003. Cost of revenue for 2003 included $150,000 of fixed lab fees for our diagnostic products. Without this fee, our cost of revenue would have been approximately 38% as a percentage of revenue. This fixed lab fee was eliminated in October 2003 and replaced with a variable cost structure, which significantly decreased cost of revenue.

In addition, the lower cost of revenue in 2004 was due in part to the 2004 license revenue having no direct costs. During June 2004, this licensing agreement was terminated and we initiated sales of Nanobac Supplements directly to customers, which has resulted in higher revenue and cost of revenue.

**2004 Compared to 2003 (continued)**

**Gross Profit**

Gross profit as a percentage of revenue was 72%, for the year ended December 31, 2004 compared to 31% for the year ended December 31, 2003. The increase in gross profit percentage is attributable to the 2004 license revenue having no costs and the existence of $150,000 of fixed lab costs in 2003 which were not incurred in 2004. We anticipate gross profit as a percentage of revenue to be between 65% and 70% for 2005.

**Selling, General and Administrative**

Selling, general and administrative ("SG&A") expenses for the years ended December 31, 2004 and 2003 are summarized as follows:

| | Year ended December | |
|---|---|---|
| | 2004 | 2003 |
| Charges for stock issuances | $ 2,562,750 | $ 750,000 |
| Other SG&A | 2,203,091 | 1,378,375 |
| Total SG&A | $ 4,765,841 | $ 2,128,375 |

The charges for stock issuances relate to stock issued as part of the Plan of Reorganization as confirmed by the Bankruptcy Court. There will be no further charges for stock issuances related to this bankruptcy.

For 2004, 64% of the Other SG&A expenses are comprised of payroll, travel and professional fees. Expenses to operate as a public company (primarily professional fees and investor relations costs) comprise an additional 18% of the remaining SG&A expense. Other significant SG&A expenses include facility rental and insurance.

The increase in SG&A for the year ended December 31, 2004 over December 31, 2003 (net of charges for stock issuances) is primarily attributable to the timing of the acquisition of LABS in June 2003. Only seven months of SG&A for LABS is included in the above SG&A expenses for 2003 compared to twelve months of expenses in 2004.

SG&A expenses for HealthCentrics are included in "Discontinued Operations".

**2004 Compared to 2003 (continued)**

**Research and Development**

For the year ended December 31, 2004, approximately 65% of research and development ("R&D") expenses are for payroll and medical director fees and approximately 25% of R&D expenses are for research studies. Expenses for research studies fluctuate from year to year as these expenses are dependent on specific initiatives and funding sources. Remaining R&D expenses include patents, our Finland lab and travel.

R&D expenses for the year ended December 31, 2004 increased 340% compared to the year ended December 31, 2003. The increase in R&D for the year ended December 31, 2004 over December 31, 2003 is primarily attributable to the acquisitions of LABS and OY. LABS was acquired in June 2003 and OY was acquired in November 2003 and includes our laboratory in Koupio Finland. Accordingly, only seven months of R&D for LABS and one and one-half months of R&D for OY are included in the above expenses for the year ended December 31, 2003 compared to twelve months for 2004. This increase also reflects our emphasis on R&D subsequent to the June 2003 acquisition of LABS. Specific increases include increased payroll, initiation of research studies, expansion of our patents and $500,000 of signing bonuses with the execution of employment agreements for key scientific personnel.

R&D expenses for HealthCentrics are included in "Discontinued Operations". We intend to continue to our R&D investment in the coming year.

**Depreciation and amortization**

Approximately 95% of depreciation and amortization are related to the amortization of intangible assets acquired in the 2003 and 2004 acquisitions of LABS and OY.

**Other income (Expense)**

Other income for the years ended December 31, 2004 and 2003 is summarized as follows:

| | 2004 | 2003 |
|---|---|---|
| Interest expense | | |