US BIODEFENSE INC
Form 10KSB
March 15, 2007

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

Form 10-KSB

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended November 30, 2006

[ ] 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.
(Name of small business issuer in its charter)

Utah	**33-0052057**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
375 South 6th Ave. **City of Industry, CA**	**91746**
(Address of principal executive offices)	(Zip code)

Issuer s telephone number: (626) 961-0562

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Title of each class	Name of each exchange on which registered

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON
(Title of class)

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this

form, and no disclosure will 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 or any amendment to this Form 10-KSB. [ ]

The issuer's revenue for its most recent fiscal year was $449,836.

The Company s common stock is listed on the Over-the-Counter Bulletin Board under the stock ticker symbol UBDE. The aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the closing price of UBDE s common stock on March 13, 2007, was$270,639.

The number of shares outstanding of each of the issuer's classes of common equity, as of November 30, 2006 was 39,059,047.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements about our business, financial condition and prospects that reflect our 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 assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, US Biodefense, Inc. 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 its 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 Report, words such as, *"believes," "expects," "intends," "plans," "anticipates," "estimates"* and similar expressions are intended to identify and qualify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions.

PART I

ITEM 1. BUSINESS.

Business Development

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.

On August 7, 2006, we completed the acquisition of Emergency Disaster Systems, Inc., a California corporation incorporated on July 19, 2006. EDS is engaged in the business of disaster mitigation and emergency preparedness. 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 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.

Business of Issuer

Principal Products and Principal Markets

We plan to evaluate the economic potential of new biological technologies as we discover them. We are not in the business of researching and developing such technologies ourselves. US Biodefense plans to license intellectual property from researchers or organizations to evaluate its commercial feasibility. We plan to develop relationships with universities and private entities to utilize research facilities and manpower to appraise the marketability of the technologies. In the event a technology is found to have viable commercial applications, we will seek third-parties to manufacture items for sale to government and corporate customers. We will rely on marketing, distribution and co-promotion agreements for the dissemination of the items produced.

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.

Our primary source of revenues is derived from our emergency disaster preparedness subsidiary, Emergency Disaster Systems, Inc., which we acquired in August 2006. 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.

Distribution Methods of Our Products

We primarily use a direct sales approach to sell our products. Sales personnel are in direct contact with existing customers to encourage recurring purchases. To attract new customers, we primarily rely upon word-of-mouth referrals, as well as conduct, support or attend community outreach events to generate awareness of our brand and product offerings. In addition to our direct sales efforts, we have established a website at www.EDisasterSystems.com as an e-commerce website for consumers to purchase our disaster preparedness products.

Competitive Business Conditions and the Issuer s Competitive Position

Our business is highly competitive. We have a large number of competitors, all of which have been established longer and have substantially greater financial resources and larger technical staffs. We also compete with specialized entities that are able to concentrate their resources on particular areas.

We compete on the basis of technical expertise, management and marketing abilities and price. Our continued success is dependent upon our ability to hire and retain highly qualified scientists, engineers, technicians, management and professional personnel who will provide superior service and performance on a cost-effective basis.

Dependence on one or a few major customers

Sales to Toyota, a major customer totaled $114,784 for the year ended November 30, 2006, representing 25.5% of total sales and 35% of sales of tangible products. Sales to Kaiser Permanente, a major customer totaled $48,583, representing 10.8% of total sales and 14.8% of sales of tangible products. Emergency Disaster Systems also participated in a fundraiser with KABC Radio Station with sales of $124,754 for the year ended November 30, 2006, representing 27.7% of total sales and 38% of sales of tangible products.

Need for Government Approval

As part of our strategy, we will be dependent upon contracts from U.S. government agencies. All U.S. government contracts and subcontracts may be modified, curtailed or terminated at the convenience of the government if program requirements or budgetary constraints change. If a contract is terminated for convenience, we will be generally reimbursed for our allowable costs, as determined by the government through the date of termination and will be paid a proportionate amount of the stipulated profit or fee attributable to the work actually performed. Contract and program modifications, curtailments or terminations may have a material adverse effect on our operations.

In addition, the U.S. government may terminate a contract for default. A termination could have a significant adverse impact on our business and reputation. If a contract is terminated for default, we may be unable to recover amounts billed or billable under the contract and may be liable for other costs and damages.

Effect of existing or probable government regulations

The terrorist attacks of September through November 2001 in the United States changed political and budgetary attitudes towards bioterrorism threats. We believe that the U.S. government has recognized that it must provide incentives for private industry to develop and manufacture biodefense products. On October 1, 2003, Congress passed the Department of Homeland Security Appropriations Act, 2004 which includes $5.6 billion over a 10-year period for the purchase of medical countermeasures against bioterrorist attacks. The HSAA allows up to $885 million of this to be spent in fiscal year 2004 and a maximum of $3.4 billion through fiscal year 2008. These purchases are expected to commence in the government s 2004 fiscal year, which began on October 1, 2003.

In January 2003, President Bush announced Project BioShield with the intention of accelerating the availability of effective countermeasures against bioterrorism. If passed, Project BioShield would increase the NIH s authorities and flexibility to facilitate the development of new products for biodefense, establish a U.S. Food and Drug Administration (FDA) emergency use authorization and provide an efficient mechanism for biodefense vaccine

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purchase. In July 2003, the U.S. House of Representatives passed the Project BioShield legislation by a vote of 421-to-2. The legislation is pending approval in the U.S. Senate.

The technology we are evaluating, if deemed commercially viable, will be subject to federal regulation in the United States, principally by the FDA under the Federal Food, Drug, and Cosmetic Act, and by state and local governments, as well as regulatory and other authorities in foreign governments. Such regulations govern or influence, among other things, the testing, manufacture, safety and efficacy requirements, labeling, storage, record keeping, licensing, advertising, promotion, distribution and export of products, manufacturing and the manufacturing process. In many foreign countries, such regulations also govern coverage and the prices charged for products under their respective national social security systems. The potential resultant products we seek to bring to market will be considered biological drug products. Biologics are subject to rigorous regulation by the FDA in the United States and similar regulatory bodies in other countries. This process is lengthy and we will not be able generate revenues in the event any potential biologic application is denied.

Amount spent during each of the last two fiscal years on research and development

We do not conduct research and development activities in-house. We contract with third-party laboratories and research facilities to conduct a significantly all of our research and development activities. As a result, we have incurred a total of $95,296 in research and development related expenses over the past two fiscal years.

Employees

We currently employ a total of 9 full- and 4 part-time employees. We believe that the addition of employees is not required over the next 12 months.

Reports to Security Holders

Annual Reports

We intend to furnish our shareholders with audited annual financial reports certified by our independent registered public accountants, and may, in our discretion, furnish unaudited quarterly financial reports.

Periodic Reports with the SEC

We are a reporting issuer with the Securities and Exchange Commission. We file annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended as required to maintain the fully reporting status.

Availability of Filings

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20002. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings will be available on the SEC Internet site, located at http://www.sec.gov.

Risk Factors

We may not be able to attain profitability without additional funding, which may be unavailable.

We have limited capital resources. To date, we have funded our operations from the sale of equity securities and have generated limited cash from operations. Unless we begin to generate sufficient recurring revenues to finance operations as a going concern, we may experience liquidity and solvency problems. Such liquidity and solvency problems may force us to go out of business if additional financing is not available. No alternative sources of funds are available to us in the event we are unable to locate adequate capital.

Our independent registered public accountants have qualified their report to express substantial doubt about our company s ability to continue as a going concern.

As of the date of this annual report, we have an accumulated deficit in the amount of $4,055,105. Taking this fact into account, our independent registered public accountants have expressed substantial doubt about our ability to continue as a going concern in their report to the financial statements included in this annual report. If our business fails, you may face a complete loss of your investment.

We do not have any facilities appropriate for clinical testing, we lack significant manufacturing experience and we have very limited sales and marketing personnel. We are currently dependent upon our acquiring licenses or others for several of these functions and will likely remain dependent upon others for these functions.

We do not have a manufacturing facility that can be used for production of our products. In addition, at this time, we have very limited sales and marketing personnel. In the course of our development program, we will likely be required to enter into additional arrangements with other companies or universities or clinical investigators for our animal testing, human clinical testing, manufacturing, and sales and marketing activities. If we are unable to retain third parties for these purposes on acceptable terms, we may be unable to successfully develop, manufacture and market our proposed products. Our dependence on third parties for the development, manufacture, sale and marketing of our products also may adversely affect our profit margins.

Product development efforts may not yield marketable products due to results of studies or trials, failure to achieve regulatory approvals or market acceptance, proprietary rights of others or manufacturing issues.

Our success depends on our ability to identify commercial applications, successfully develop and obtain regulatory approval to market new biopharmaceutical products. We expect that a significant portion of the technology that we will evaluate will involve new and unproven technologies. Our potential products may appear to be promising at various stages of development yet fail to reach the market for a number of reasons, including the:

1. lack of adequate quality or sufficient prevention benefit, or unacceptable safety during pre-clinical studies or clinical trials;

2. failure to receive necessary regulatory approvals;

3. existence of proprietary rights of third parties; or

4. inability to develop manufacturing methods that are efficient, cost-effective and capable of meeting stringent regulatory standards.

We will be significantly dependent upon contracts with the U.S. government. If we are unable to obtain contracts to supply the U.S. government, we may not be able to continue our business.

The process of obtaining U.S. government contracts is lengthy and uncertain and we must compete for each contract. Moreover, the award of one government contract does not necessarily secure the award of future contracts covering the same vaccine. We cannot be certain that we will be awarded any future contracts with the U.S. government. We currently have no products to sell. However, upon commencement of our operations, of which we cannot assure you, if we are unable to obtain contract awards to supply our products to the U.S. government, our business will be harmed and it is unlikely that we will be able to ultimately commercialize any particular vaccine.

Political or social factors may delay or impair our ability to market vaccine products.

Products developed to treat diseases caused by or to combat the threat of bioterrorism will be subject to changing political and social environments. The political and social responses to bioterrorism have been highly charged and unpredictable. Political or social pressures may delay or cause resistance to bringing our products to market or limit pricing of our products, which would harm our business.

Because of competitive pressures from competitors with more resources we may fail to implement our business model profitably.

We are entering a highly competitive market segment. Our expected competitors include several larger and more established companies in the biodefense and pharmaceutical industries. Generally, our actual and potential competitors have substantially greater capital resources, larger research and development staffs and facilities, greater experience in drug development and in obtaining regulatory approvals, and greater marketing capabilities than we do. Our competitors include fully integrated pharmaceutical companies and biotechnology companies that currently have drug and target discovery efforts, as well as universities and public and private research institutions. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products that we target. Researchers are continually learning more about diseases, which may lead to new technologies for treatment. Our competitors may succeed in developing and marketing products either that are more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed.

Failure to hire and retain key management employees could adversely affect our ability to obtain financing, develop our products, conduct clinical trials or execute our business strategy.

We are highly dependent on our senior management. These individuals have played a critical role in raising capital and negotiating business development opportunities. If we lose the services of any key members of senior management and we are unable to recruit qualified replacements where we deem it necessary, we may be unable to achieve our business objectives.

Our management is involved with other business activities, which could reduce the time they allocate to our

operations.

Our operations depend substantially on the skills and experience of Mr. David Chin, our President. Mr. Chin is involved in other business activities and may, in the future, become involved in other business opportunities. If a specific business opportunity becomes available, one or more of these individuals may face a conflict in selecting between US Biodefense and his other business interests. We have not formulated a policy for the resolution of such conflicts.

Our stock is a speculative investment that may result in losses to investors.

The trading price of our common stock is subject to wide fluctuations in response to various events or factors, many of which are beyond our control. In addition, the stock market may experience extreme price and volume fluctuations, which, without a direct relationship to the operating performance, may affect the market price of our stock.

ITEM 2. DESCRIPTION OF PROPERTY

Description of Property

US Biodefense, Inc. has its headquarters in California. We lease an approximately 6,912 square foot office and warehouse space located at 375 South 6th Avenue, City of Industry, CA 91746 at a rate of $6,290 per month. This lease expires in April 2009. There are currently no proposed programs for the renovation, improvement or development of the facilities we currently use. We believe that this arrangement is suitable given the nature of our current operations, and also believe that we will not need to lease additional administrative offices for at least the next 12 months.

Investment Policies

Our management does not currently have policies regarding the acquisition or sale of real estate assets primarily for possible capital gain or primarily for income. We do not presently hold any investments or interests in real estate, investments in real estate mortgages or securities of or interests in persons primarily engaged in real estate activities.

ITEM 3. LEGAL PROCEEDINGS

No Director, officer, significant employee or consultant of US Biodefense, Inc. has been convicted in a criminal proceeding, exclusive of traffic violations.

No Director, officer, significant employee or consultant of US Biodefense, Inc. has been permanently or

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temporarily enjoined, barred, suspended, or otherwise limited from involvement in any type of business, securities or banking activities.

No Director, officer, significant employee or consultant of US Biodefense, Inc. has been convicted of violating a federal or state securities or commodities law.

We are not a party to any pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market information

The Company s common stock is currently traded on the Over-the-Counter Bulletin Board under the stock ticker symbol UBDE. The following table sets forth the monthly high and low prices for the Company's common stock on the OTCBB® for each quarter of the last two fiscal years:

Quarter Ended	High	Low
November 30, 2006	$ 0.15	$ 0.40
August 31, 2006	$ 1.60	$ 0.04
May 31, 2006	$ 4.28	$ 1.50
February 28, 2006	$ 4.40	$ 1.85
November 30, 2005	$ 5.00	$ 2.50
August 31, 2005	$ 5.25	$ 4.00
May 31, 2005	$ 6.40	$ 4.00
February 28, 2005	$13.33	$ 6.33

OTCBB® quotations of the Company s Common Stock reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions.

Shares Available Under Rule 144

As of November 30, 2006, there were 29,292,119 shares of common stock that are considered restricted securities under Rule 144 of the Securities Act of 1933. Of the 29,292,119 restricted shares issued and outstanding, 27,292,119 shares are held by David Chin, an affiliate, as that term is defined in Rule 144(a)(1).

In general, under Rule 144 as amended, a person who has beneficially owned and held "restricted" securities for at least one year, including "affiliates," may sell publicly without registration under the Securities Act, within any three-month period, assuming compliance with other provisions of the Rule, a number of shares that do not exceed the greater of (i) one percent of the common stock then outstanding or, (ii) the average weekly trading volume in the common stock during the four calendar weeks preceding such sale. A person who is not deemed an "affiliate" of our Company and who has beneficially owned shares for at least two years would be entitled to unlimited resales of such restricted securities under Rule 144 without regard to the volume and other limitations described above.

Holders

As of the date of this prospectus, we have approximately 39,059,047 shares of $0.001 par value common stock issued and outstanding held by approximately 170 shareholders of record.

Dividends

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on its common stock. Any future determination to pay dividends will be at the discretion of the

Board of Directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that the board of directors considers relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides the following information as of November 30, 2006, for equity compensation plans previously approved by security holders, as well as those not previously approved by security holders:

1. The number of securities to be issued upon the exercise of outstanding options, warrants and rights;

2. The weighted-average exercise price of the outstanding options, warrants and rights; and

3. Other than securities to be issued upon the exercise of the outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	10,000,000	$0.04	3,245,000
Total	10,000,000	$0.04	3,245,000

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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 and developing homeland security and biodefense products.

On August 7, 2006, we completed the acquisition of Emergency Disaster Systems, Inc., a California corporation incorporated on July 19, 2006. EDS is engaged in the business of disaster mitigation and emergency preparedness. 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 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.

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 fiscal year ended November 30, 2006, we generated aggregate revenues of $449,836, compared to total revenues of $159,166 during the year ago period ended November 30, 2005. This 183% increase, or $290,670, is materially attributable to the acquisition of EDS in the third quarter of 2006, which contributed $328,169 in revenues from sales of tangible products during the year ended November 30, 2006, as opposed to $0 in the year ago period ended November 30, 2005.

Revenues from services realized during the year ended November 30, 2006 were $50,000, 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. In the prior year ended November 30, 2005, revenues from services amounted to $25,000, all of which was also due to our agreement with Diamond I. The increase in revenues from services compared year-over-year can be ascribed to the recognition of revenues over a twelve month period in 2006 and for only a six month period in the year ended November 30, 2005.