NANOBAC PHARMACEUTICALS INC
Form 10KSB
May 04, 2007

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

FORM 10-KSB
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended
December 31, 2006

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)

4730 North Habana Avenue, Suite 205, Tampa, Florida 33614
(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 [X] No [ ]

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-KSBor any amendment to this Form 10-KSB. [ ]

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

State issuer's revenue for its most recent fiscal year: $225,086

The approximate aggregate market value of voting and non-voting stock held by non-affiliates of the registrant was $7,630,575 as of May 1, 2007. 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 May 1, 2007 there were 247,476,426 shares of the Registrant's Common Stock outstanding.

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Nanobac Pharmaceuticals, Incorporated

Form 10-KSB
For the Year Ended December 31, 2006

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PART I

Item 1. Business

Nanobac Pharmaceuticals, Incorporated and its subsidiaries (which may be referred to as “Nanobac”, “the Company”, “NNBP”, “we”, “us”, or “our”) is a research-based bio-lifescience company formed in 1994 as a Florida corporation. The current business described below commenced in June 2003 with the acquisition of NanobacLabs Pharmaceuticals, Inc.

We are a life science company dedicated to the discovery and developments of products and services to improve people's health through the detection and treatment of Calcifying Nanoparticles (“CNPs”), otherwise known as "nanobacteria". The Company's pioneering research is establishing the pathogenic role of nanobacteria in soft tissue calcification, particularly in coronary artery heart disease, prostatitis and vascular disease.

Nanobac’s drug discovery and development is focused on new and existing compounds that effectively inhibit, destroy or neutralize CNPs. Nanobac manufactures and markets In Vitro Diagnostic (IVD) kits and reagents for detecting calcifying nanoparticles. IVD products include assays, proprietary antibodies and reagents for uniquely recognizing CNPs. Nanobac's BioAnalytical Services works with biopharmaceutical partners to develop and apply methods for avoiding, detecting, and inactivating or eliminating CNPs from raw materials. Nanobac's drug discovery and development efforts are focused on developing new and existing compounds that effectively inhibit, destroy or neutralize CNPs.

Calcification is a significant feature in most diseases that are leading causes of death, including heart disease. Calcification is shown in numerous studies to block circulation, cause inflammation and cell disruption, and is a sign of various cancers. We have decided to have a sharpened focus on drug therapy based on findings by Nanobac scientists that certain drugs, when combined, are effective at halting the calcification process. Some of these drug combinations have not been tested in animals or humans. However, the Company has an advantage in that each of these drugs on its own has an FDA-approved record of being safe; therefore regulatory hurdles are significantly lower in every national jurisdiction.

Our plan is to focus on the following priorities over the next twelve months:

- **Therapy -** We are entering into agreements to support the FDA PIND to test our proprietary drug combinations to treat stone-forming diseases, with a preliminary focus on prostatitis, which affects millions of men and currently is largely untreatable. We will also conduct tests with other stone forming diseases such as gallstones and kidney stones.

- **Infection -** The gold standard for proving that something is infectious is Koch's postulates. We intend to validate earlier findings on Koch's postulates with calcifying nanoparticles in laboratory animals, including testing whether the infection can be prevented or treated with a proprietary drug combination. In June 2006, a new study published by independent scientists in a peer reviewed journal demonstrated key elements of Koch’s postulates by showing that CNPs are implicated in formation of black pigment gallstones in an animal model. In August 2006, we announced that we entered into an agreement to validate this finding with the same scientists including Dr. LiMin Wang from Shantou University Medical College, Guangdong, China, who will be the Principle Investigator

- **Characterization -** We have preliminary photographic and biochemical evidence that calcifying nanoparticles self-replicate in non-precipitating conditions, suggesting further that they have a self-sustaining mechanism and might be infectious. In a recent agreement with Fetzer Memorial Trust, we have begun experiments at our NASA laboratory in Houston to demonstrate this replication via time-lapse photography using award-winning CytoViva microscope technology capable of breaking through the 200 nanometer (nm) barrier for light microscopes. Our Scientific Director at NASA’s Johnson Space Center has recently taken preliminary photographs of CNPs at

magnifications that we believe had not been previously achieved. We own the intellectual property arising from the above experiments.

- **Thrombosis -** Thrombosis is the cause of death in most hemodialysis patients. We intend to validate findings that calcifying nanoparticles discovered in human blood provoke thrombosis and might be preventable.

- **Diagnostics** - We believe that our proprietary Elisa antibody test uniquely recognizes calcifying nanoparticles known as nanobacteria, and plan to further validate the functionality of this diagnostic test.

During September 2006, we announced our agreement with Mayo Clinic to study whether calcifying nanoparticles, already found in atherosclerotic plaque, are infectious and contribute to the onset of heart diseases

We will continue optimizing our proprietary diagnostics, with a clear focus on developing effective therapies in cooperation with well-established partners including NASA, Mayo Clinic, Cleveland Clinic, and numerous other institutions. Once these experiments are completed, we expect to have a compelling and well-rounded scientific basis for the Company to move forward.

Patents - We have filed applications for a number of patents, have been granted patents, and await prosecution of pending application in the US and International Stages.

Patent		General Subject Matter	Expiration Date
US 5,135,851	U.S.	-Method for the culture and detection of nanobacteria also known as calcifying nanoparticles (issued in 1992)	August 11, 2010
US 6,706,290 PCT/EP1999/004555	U.S. & International Application (PCT)	-Methods for the eradication of Nanobacteria from articles and animals using various novel combinations of systems, chemicals, compounds, drugs, prodrugs, supplements, etc. (issued in 2004)	Jul 6, 2018
	U.S. & PCT Applications Filed	-Methods and Compositions (combinations) for treating diseases characterized by pathological calcification (Filed in 2004)	
	U.S. & PCT Applications Filed	-Methods and combinations of compositions including Bisphosphonates, chelators, and citrates (Filed in 2004)	
	U.S.	-Methods for the treatment of disease associated with calcification and/or plaque formation (Filed in 2004)	
	U.S. & PCT Application Filed	-Detection of antibodies against compositions of conformationally changed proteins comprising calcium binding protein hydroxy apatite complexes and novel in vitro test methods (Filed in 2005)	
	U.S. & PCT Applications filed	-Methods and compositions to detect calcifying nanoparticles including the identification and quantification of proteins thereon and correlation to diseases thereof	

		(Filed in 2005)	

There can be no assurance that our patents or pending applications will afford legal protection against competitors or provide significant proprietary protection or competitive advantage. In addition, our patents or pending applications could be held invalid or unenforceable by a court, or infringed or circumvented by others, or others could obtain patents that we would need to license or circumvent. Competitors or potential competitors may have filed patent applications or received patents, and may obtain additional patents and proprietary rights relating to proteins, small molecules, compounds, or processes competitive with ours. Additionally, for certain of our product candidates, competitors, or potential competitors may claim that their existing or pending patents prevent us from commercializing such product candidates in certain territories. Further, when our patents expire, other companies could develop new competitive products to our products.

Trade secret protection for our unpatented confidential and proprietary information is important to us. To protect our trade secrets, we generally require our staff members, material consultants, scientific advisors, and parties to collaboration and licensing agreements to execute confidentiality agreements upon the commencement of employment, the consulting relationship, or the collaboration or licensing arrangement with us. However, others could either develop independently the same or similar information or obtain access to our information.

Research

Nanobacterial research is ongoing around the world. Our lead scientists Olavi Kajander and Neva Ciftcioglu, have formed multidisciplinary alliances with top researchers including: Marshall Stoller, University of California San Francisco; Rune Eliasson, Sweden; Hojatollah Vali, McGill University, Canada; Mayo Clinic, Rochester, Minnesota; University of South Florida; Iowa State University; D. Shoskes, Cleveland Clinic; Garcia-Cuerpo, Spain; China Ghangsha group; Sommer, Univ. of Ulm; Pretorius, South-Africa; G. Epstein/J.T. Salonen; Tom & Marcia Hjelle, Univ. of Illinois; Y. Av-Gay, University of British Columbia; and R. Berger, Miami Heart Institute, Miami FL. We intend to serve as the nexus for research scientists and become the premier leader in nanobacterial research and distribution of knowledge. We generally retain the rights for the commercialization of intellectual property that result from these collaborative studies.

To date, these collaborations have resulted in the publishing of over 86 articles, numerous abstracts and book chapters. Example publications since 1998 include articles in Science, Nature and Nature Medicine, Proceedings of the National Academy of Sciences, Lancet, Urology, New Scientist, Molecular Medicine, PDA Journal, Kidney International, Circulation, Journal of Pathophysiology, and American Society for Microbiology.

In 2004, we entered into a Space Act Agreement with NASA's Johnson Space Center ("JSC"), Houston Texas, to collaborate on the research of nanobacterium sanguineum and its nature and role in pathological calcification, including the detection and treatment of the pathogen. Since Astronauts may be more prone to an increased rate of pathological calcification while in a zero gravity environment, the collaboration will support NASA's need to better understand the effects of long-term space travel on humans. In addition, Nanobac's work provides a model for studying mineralized organic matters that could aid NASA in the search for extraterrestrial life.

Nanobac co-founder and Director of Science, Neva Ciftcioglu, Ph.D. will remain at NASA JSC as Staff Scientist and principal researcher. Under the agreement, NASA will provide workspace at JSC for Nanobac's personnel located at JSC. The agreement further provides Nanobac the opportunity to work together with a multidisciplinary team of NASA researchers while having access to basic laboratory services for CNPs science, including electron microscopy, molecular biology and geology-mineralogy research facilities. Projects ranging from searching for CNPs biosignatures in earth fossils and in Mars meteorites to diagnosing and treating CNPs are anticipated. Nanobac will provide JSC with equipment and specialty supplies for CNP research and apply its pioneering diagnostic and treatment experience in the field.

We own the rights for the commercialization of intellectual property that results from our collaborative research at NASA JSC. However, the U.S. Federal Government retains the right to use this intellectual property for U.S. Government purposes without compensation to us.

The Role of CNPs in Calcification Associated Diseases

Urological Diseases

Researchers have shown a relationship between CNPs and urological diseases such as chronic prostatitis/chronic pelvic pain syndrome (CP/CPPS), kidney stones, and PKD. Until these studies, no single infection, viral or bacterial, had been identified that could have caused the progression of these diseases.

Nanobac has focused on investigating the relationship between CNPs and these urological diseases.

Chronic prostatitis/chronic pelvic pain syndrome (CP/CPPS)

Chronic prostatitis/chronic pelvic pain syndrome (CP/CPPS) is a disease in males defined by pelvic pain and/or ejaculatory and/or urinating pain/discomfort lasting longer than 3 months. At any time 2-10% of adult men are suffering from CP symptoms and 15% of men will suffer from CP symptoms at some point of their lives. In the United States, more than 2 million men per year will visit their physician for CPPS. The cause for CP/CPPS is frequently unknown and thus the therapies are mostly empirical and target the symptoms. Antimicrobial and anti-inflammatory agents and a-adrenergic receptor blockers are frequently used, and seem to relieve the symptoms in many patients. However, men with refractory long-standing symptoms present a substantial problem to general practioners, internists and urologists, as the current therapies have inconsistent effects on the patient's symptoms. Persistent unknown cause behind the symptoms leads to a situation where no evidence based medicine can be used as a basis for therapeutic efforts.

The prostatitis syndromes are a group of disorders with varying symptoms and probably diverse etiologies. Prostatitis is divided into four types. CP/CPPS type III accounts for the majority of CP/CPPS patients seen in an average urology practice. These patients often have prostatic calcification. The presence of prostatic calculi in younger men is associated with both inflammation and symptoms of CPPS. While prostatic calcification is often detected in asymptomatic older men who undergo prostate biopsy, the presence and degree of calcification in younger CP/CPPS patients can be striking. One hypothesis is that prostatic calculi in the prostatic ducts may increase intraprostatic pressures and lead to pain and swelling. Furthermore, the core of prostatic calculi is typically calcium apatite, which is the hallmark of CNPs action. This association led researchers to postulate a role for CNPs in the development of CP/CPPS. Indeed, preliminary research comparing serum of men with a diagnosis of prostatitis with serum from unaffected men revealed significantly higher rates of CNP antigen by ELISA analysis in the prostatitis group.

Kajander and Ciftcioglu proposed a new etiology for CP/CPPS, simply because we have found that these patients very often have very high levels of CNPs in their blood. CNPs carry important players of inflammation and cell death on their surface. It has been shown *in vitro* that CNPs can kill cultured mammalian cells and can cause cell damage.

When 15 human diseases were investigated for the presence of CNPs in peripheral blood, CP/CPPS patients showed the highest values of CNPs. A strategy to treat CP/CPPS should be based upon a new understanding of the basic disease process calcific inflammation.

A recent observational study of prostatitis patients, led by Daniel A. Shoskes, M.D., of Cleveland Clinic Florida, published in the leading peer-reviewed urology journal, The Journal of Urology, demonstrated a significant improvement in the symptoms of chronic prostatitis / chronic pelvic pain syndrome for those patients who took Nanobac Supplements for a period of three months. The treated group of 16 patients had prostatic stones and longstanding Chronic Pelvic Pain Syndrome ("CPPS") symptoms that were not responsive to prior conventional therapies. Two of the patients in the test group who had been on complete medical disability have returned to work.

Kidney Stones:

Kidney stones are one of the most common disorders of the urinary tract. A kidney stone is a solid piece of material that forms in the kidney out of substances in the urine. A problem stone can block the flow of urine and cause great pain.

Several studies conducted by prominent medical researchers have collectively shown CNPs as a probable cause of kidney stone formation. Depending upon the patient population, researchers have found that 62% to 97% of kidney stones have CNPs. The presence of CNPs is independent of the type of kidney stone.

It is believed that CNPs create the calcific deposits that are physically present in the kidney stones and therefore may be the cause of kidney stone formation.

The Company has been working with scientists at NASA to research the effects of CNPs in the formation of kidney stones during space flights. Neva Ciftcioglu, the Company's Director of Science, and a team of NASA scientists used multiple techniques to determine that CNPs multiply faster in space flight simulated conditions than on Earth. This determination is especially important to NASA as it indicates that astronauts on future long-term missions to the moon and Mars are at an increased risk for developing kidney stones.

The Company is continuing its collaboration with NASA. The observation that CNPs grow faster in conditions simulating the microgravity conditions of space also allows researchers to grow cultures faster. A problem facing researchers in studying CNPs had been in developing a sufficient amount of material. CNPs double about once every three days compared to typical bacteria which doubles about every 20 minutes.

Polycystic Kidney Disease ("PKD"):

Polycystic kidney disease ("PKD") is a genetic disorder characterized by the growth of numerous cysts in the kidneys. PKD cysts can slowly replace much of the mass of the kidneys, reducing kidney function and leading to kidney failure.

Studies have shown that 100% of kidney cyst fluids and urine were positive for Nanobacteria. Nanobac plans to initiate research trials that will evaluate the link between Nanobacteria and PKD.

Cardiovascular Diseases

The most serious and widespread of the diseases caused by calcified plaque are atherosclerosis (hardening of the arteries) and coronary heart disease. Coronary heart disease is caused by a narrowing of the coronary arteries that feed the heart, which may be caused by the build-up of CNPs.

Many cardiovascular researchers have shown that atherosclerosis might be the life-long result of our bodies' various healing mechanisms and inflammatory responses to infection. Researchers have sought to isolate an infectious agent that is present in our tissues that could stimulate the development of atherosclerotic plaques. Until recently, no single infection, viral or bacterial, had been implicated.

Three recently published studies conducted by prominent medical researchers have collectively shown that CNPs might be the previously unidentified agent involved in the development of atherosclerotic heart disease. A group of researchers at the Mayo Clinic, led by Virginia Miller, PhD showed that CNPs are present in calcified atherosclerotic coronary arteries and heart valves.

Cardiovascular researcher Benedict Maniscalco, MD published a study that showed that patients with severe coronary artery disease tested positive for nanobacterial antigen. The study also indicated that a majority of cardiac patients that received the Nanobac Supplements had a decrease in their coronary artery calcium scores. Angina was decreased or ablated in 16 of 19 patients. Lipid (fats and fat like materials) profiles also improved in most patients. Dr. Maniscalco's study concluded that the coronary artery calcium scores of most coronary artery disease patients decreased during the period they used the Nanobac Supplements inferring regression of calcified coronary artery plaque volume. The patients tolerated the therapy well and their angina and lipid profiles improved.

Also, at a recent American Heart Association scientific session, one of the world's most prominent heart disease researchers, Stephen E. Epstein, MD, Director of the Cardiovascular Research Institute at Washington Hospital Medical Center in Washington D.C., reported that 94% of people with calcified coronary arteries have nanobacterial infection as measured by the Company's Nanobacterial Antibody Assay, and that antibody results correlated with coronary calcification scoring. Therefore, the Nanobacterial Antibody Assay may be a predictor of patients with high levels of calcium in their coronary arteries. These patients are at the highest risk for a heart attack. Thus, the Nanobacterial Antibody Assay could be used as a biomarker that may predict which patients are at greatest risk for a heart attack.

The collective weight of the three studies suggests that CNPs infection may be the previously unknown infectious agent associated with atherosclerotic plaque. The physical presence of CNPs in the diseased artherosclerotic tissues and the correlation with heart disease calcification levels suggests that long-term CNP presence may be involved in the development of the calcification in atherosclerotic heart disease.

Nanobac is continuing its research of the relationship between CNPs and heart disease and has expanded its research to include other diseases involving pathological calcification.

Other Opportunities

Calcifying Nano-Particles expose a risk for biopharmaceuticals containing human or animal blood components or blood and animal tissue derived raw materials or production substrates.

Nanobac BioAnalytical Services develop and apply methods for avoiding, detecting, and inactivating or eliminating CNPs from raw materials or production substrates. Our contamination control program focuses on host cell lines, animal and human derived materials, raw materials, availability of diagnostic procedures and downstream processes capable of inactivating or removing contaminants. We are considering enlisting biopharmaceutical partners to further this line of business.

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Calcifying Nano-Particle (CNP) Background and Description

CNPs were discovered in 1988 by Finnish researcher Olavi Kajander, M.D., PhD. Dr. Kajander was carrying out mammalian cell research when a routine mammalian cell culture experiment, using commercially available fetal bovine serum as the growth media, just wasn't getting off the ground. The cells weren't thriving and dividing like they should; the cells were sickly and died off before any study could be done. Strange vacuoles were forming up in many of the cells, and these cells subsequently died. Dr. Kajander, like all basic cell researchers, had encountered this problem before; sometimes their cell cultures worked, and sometimes they didn't. Dr. Kajander researched this further and after several weeks of culture, turbidity developed in one of the flasks. We believe this represented the first isolation of CNPs.

In 1991 Dr. Kajander was joined by microbiologist Neva Ciftcioglu, Ph.D. at the University of Kuopio, Finland. Their research established that the blood-borne CNPs form slow-growing calcified colonies in arteries and organs, much as coral reefs are formed. CNPs have been found in human and animal blood, urine and saliva. The name "nanobacteria" was introduced and patented by Dr. Olavi Kajander as the name for very small mineral-associated bacteria-like particles now referred to as CNPs.

Competition

The market for providing physicians and managed care organizations with nanobacteria related disease management and services is just emerging, and we believe are currently the only company providing a comprehensive approach to managing nanobacterial diseases.

The general market for academic researchers and clinical laboratories with In Vitro diagnostic test kits is highly competitive and includes diagnostic companies such as, Roche, Abbott, Bayer, Johnson & Johnson, and Dade Behring.

The general market for pharmaceuticals is also highly competitive and includes Fortune 500 pharmaceutical companies as well as small to medium sized pharmaceutical and dietary supplement companies.

Nanobac believes that it will be able to grow and defend the specialized nanobacteria related disease market niche due to its expertise in the field, its disease management approach, and its technology leadership.

Government Regulation

Clinical Reference Laboratory

Clinical reference laboratories in the United States are regulated under the federal Clinical Laboratory Improvement Act (CLIA). Our reference laboratory is located in Kuopio Finland and is regulated by European Union and Finland laws and is not regulated by CLIA.

In Vitro Diagnostics

The FDA regulates in vitro diagnostic kits and reagents. We intend to begin clinical studies to support an FDA filing for our assays. The timing of our clinical trials and FDA approval is dependent on future funding and preliminary research results. We received notification that our NANO-CAPTURE and NANO-SERO assays meet the criteria for CE Mark in Europe.

Environmental Matters

We have not been impacted financially or operationally by environmental laws.

Geographic

We will initially focus our drug discovery business in the United States. To date, over 90% of our revenue is from the United States. We may also develop markets in the European Union through the operations of our Finnish Subsidiary, Nanobac OY.

Employees

We have three employees in our corporate headquarters in Tampa, Florida, two employees at the NASA facility in Houston Texas and five employees in Finland.

Factors That May Affect the Company

We operate in a rapidly changing environment that involves a number of risks, uncertainties, and assumptions, many of which are beyond our control. For a discussion of some of these risks, see "—Risk Factors" in Item 6 of this report. Other risks are discussed elsewhere in this Form 10-KSB.

Investor Information

We are subject to the information requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Therefore, we file periodic reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements, and other information may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically.

Financial and other information about the Company is available on our website (http://www.nanobac.com). We make available on our website, through links to the SEC website, copies of our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Item 2. Properties

The following table sets forth a description of our facilities:

Location	Square Feet (Approx)	Lease Expiration	Function
Tampa, Florida	1,700	December 2007	Headquarters for Nanobac
Tampa, Florida	4100	June 2007	Former Headquarters for Nanobac operations - space is currently vacant
Tampa, Florida	2,100	June 2010	Office space subleased to an unaffiliated entity
Koupio, Finland	1,500	3 months notice	Research and laboratory facility

All facilities are in good condition. We expect that our current facilities will be sufficient for the foreseeable future. To the extent that we require additional space in the near future, we believe that we will be able to secure additional leased facilities at commercially reasonable rates.

Item 3. Legal Proceedings

Except as described below, we know of no material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholders are an adverse party or has a material interest adverse to us.

On August 10, 2004, we were served with a civil action as filed in the Superior Court of Fulton County State of Georgia by Foltz Martin LLC and Openbook Learning Club, Inc. (“Foltz”). This suit alleges that the Company is liable for approximately $67,000 of liabilities plus approximately $11,000 interest for services performed by the plaintiffs for HealthCentrics, Inc. in 2003 and 2004. The Company owned 100% of HealthCentrics from December 2003 through March 2004 when HealthCentrics was sold by the Company to an affiliate. We do not believe that the Company is liable for the obligations of HealthCentrics.

On January 19, 2006, we were served with a civil action as filed in the Superior Court of Fulton County State of Georgia by EliteCorp Atlanta, LLC (“EliteCorp”). This suit alleges that the Company is liable for approximately $318,000 of liabilities plus approximately $110,000 interest for services performed by the plaintiffs for HealthCentrics, Inc. in 2003 and 2004. We responded to this action on February 17, 2006 and denied virtually all the allegations of EliteCorp. We do not believe that the Company is liable for the obligations of HealthCentrics.

During January 2007, the Company, along with the Company’s CEO and a Board of Director member was served with civil action in the Circuit Court of Cook County, Illinois by Nutmeg Group LLC, the sole unaffiliated holder of subscription agreements described in Note 10. The suit is seeking damages for alleged breaches of contract by the Company and the affiliates as a result of the alleged failure to deliver stock and warrants that were allegedly due to be delivered under certain subscription agreements between the parties. We have filed a motion to quash summons, contending there is no jurisdiction in Illinois for this matter. The amount of damages, if any, that will be payable under this legal action is currently unknown.

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of the year ended December 31, 2006.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Our common stock is traded under the symbol "NNBP".

From October 12, 1994 through August 18, 1997, the Company's Common Shares were traded in the NASDAQ SmallCap Market under the symbol "NATD". Beginning August 18, 1997 the Company's Common Shares were traded on the Over The Counter Bulletin Board. Effective March 27, 2000, the trade symbol was changed to "AMER". Effective July 21, 2003, the trade symbol was changed to "NNBP". From March 2001 through November 2004, our Common Shares have traded through the Over The Counter Pink Sheets. From November 2004 to present, our Common Shares have been traded on the Over The Counter Bulletin Board ("OTCBB"). The following table sets forth the high and low bid prices for Common Shares as reported by NASDAQ, OTC Pink Sheets, and OTCBB for the periods indicated. Quotations on NASDAQ, OTC Pink Sheets and OTCBB reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	High	Low
2005		
First Quarter	$0.16	$0.11
Second Quarter	$0.13	$0.07
Third Quarter	$0.10	$0.07
Fourth Quarter	$0.08	$0.04
2006		
First Quarter	$0.03	$0.06
Second Quarter	$0.04	$0.08
Third Quarter	$0.36	$0.05
Fourth Quarter	$0.35	$0.10

On May 1, 2007, the closing bid quote for the Common Shares was $0.07 per share, and there were approximately 250 holders of record of Common Shares. Our common shares are issued in registered form. Continental Stock Transfer & Trust Company, 17 Battery Place, New York, NY 10004 is the transfer agent for our common shares.

We have not paid cash dividends on our Common Shares and we do not anticipate doing so in the foreseeable future. The Company intends to retain earnings, if any, for future growth and expansion opportunities. Payment of cash dividends in the future, as to which there can be no assurance, will be dependent upon the Company's earnings, financial condition, capital requirements and other factors determined by the Board of Directors.

Changes in Securities

From August 2004 through February 2005, we executed Subscription Agreements with three unaffiliated investors and one affiliated investor. These investors paid us 50% of the subscription price at execution and the remaining 50% is due within five days from the date that a registration statement is declared effective for the common shares that are being issued. In exchange for the cash consideration, we are to issue these investors shares of our common stock equal to the amount paid divided by the lesser of (a) $0.12 or (b) fifty-two percent of the average closing bid price for our common stock for the five days immediately prior to the date on which a registration statement is declared effective ("The Fixed Price"). In addition, each of these investors will receive an equivalent number of warrants with expiration dates of five years from the date of issuance. One half of these warrants will be priced at 110% of the Fixed Price and the remainder will be priced at 150% of the Fixed Price. During 2006, the CEO Affiliate acquired the rights and obligations under the above Stock Subscription Agreements from two of the three unaffiliated investors except for common stock previously issued to these investors and 2.7 million of the warrants. The minimum number of shares and warrants that will be issued under these Subscription Agreements (assuming a Fixed Price of $0.12 per share) is as follows:

	Number of Shares	Per Share	Proceeds
Common Stock, previously issued:			
Unaffiliated Investors	8,125,000	$ 0.12	$975,000
Affiliates	4,166,667	$ 0.12	500,000
	12,291,667		$1,475,000
Common Stock, future issuances			
Unaffiliated Investors	5,416,667	$ 0.12	$650,000
Affiliates	6,875,000	$ 0.12	825,000
	12,291,667		$1,475,000
Warrants:			
Unaffiliated Investors	8,125,000	$ 0.13	
Affiliates	4,166,667	$ 0.13	
Unaffiliated Investors	5,416,667	$ 0.18	
Affiliates	6,875,000	$ 0.18	
	24,583,334		

The actual number of shares and warrants that ultimately will be issued under these Subscription Agreements may be substantially higher due to the variability of the Fixed Price. Based on our recent traded price of $0.04 to $0.09 per share, three to six times as many shares and warrants would be issued as described above. Further, we do not have sufficient authorized shares to issue the common stock and warrants required under the above subscription agreements. Our stockholders need to approve any increase in our authorized shares.

Each of these investors received their shares in reliance upon Section 4(2) of the Securities Act of 1933, because each of the holders was knowledgeable, sophisticated and had access to comprehensive information about us. At all relevant times we were a reporting company under the Securities Exchange Act of 1934 and there was readily available adequate current public information with respect to the Company.

Changes in Securities (continued)

A success fee was awarded to a broker for one of the above unaffiliated investor transactions in the form of 5-year warrants equal to 20% of the value of the transaction. These warrants have exercise prices equal to $0.16 to $0.22 per share for transactions completed to date. Future warrants issued under this agreement will have an exercise price equal to NNBP's stock price on the date of closing. We estimate that 2 million warrants will be issued to this broker.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchases

None

Selected Quarterly Financial Data

	Mar 31	Jun 30	Sep 30	Dec 31
2006 Quarter ended				
Revenue	$ 161,286	$ 37,565	$ 23,894	$ 2,341
Gross profit	$ 116,091	$ 14,942	$ 12,608	$ 1,640
Net loss	($1,487,687)	($1,395,460)	($787,183)	($1,303,023)
Loss per share:				
Basic and Diluted	($0.01)	$ 0.00	$ 0.00	($0.01)
2005 Quarter ended				
Revenue	$ 151,865	$ 167,988	$ 130,394	$ 206,555
Gross profit	$ 108,027	$ 109,527	$ 83,309	$ 126,493
Net loss	($1,505,921)	($984,153)	($645,547)	($551,716)
Loss per share:				
Basic and Diluted	($0.01)	($0.01)	$ 0.00	$ 0.00

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

During calendar 2007, and for the foreseeable future, our primary focus is on the research of the role Nanobacteria plays in human diseases involving pathologic calcification deposits for the purpose of drug discovery and the development of diagnostic tests. Accordingly, during March 2006, we decided to terminate the marketing and selling of dietary supplements in order for the Company to focus exclusively on the science related to Nanobacteria, which we plan to lead to drug discovery and the development of diagnostic products for the detection and treatment of Nanobacteria related diseases.

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, 2006 and 2005. These comparisons of financial results are not necessarily indicative of future results.

	Year ended December 31			
	2006	2005	% Change	$ Change
Revenue	$ 225,086	$ 656,802	-66%	($431,716)
Cost of revenue	79,805	229,446	-65%	(149,641)
Gross Profit	145,281	427,356	-66%	(282,075)
Gross Profit percentage	65%	65%		
Selling, general and administrative	1,838,740	1,311,501	40%	525,239
Research and development	1,994,797	1,193,611	67%	801,186
Impairment loss on intangible asset	585,000	0	NM	585,000
Depreciation and amortization	541,278	759,935	-29%	(218,657)
Operating loss	(4,814,534)	(2,837,691)	69%	(1,976,843)
Other income (Expense)	(158,819)	(849,646)	-81%	690,827
Net loss	($4,973,353)	($3,687,337)	35%	($1,286,016)

2006 Compared to 2005

Revenue

Revenue for the years ended December 31, 2006 and 2005 is summarized as follows:

	Year ended December 31	
	2006	2005
Nanobac Supplement	$ 122,495	$ 498,413
Observation Rights	15,000	10,000
Diagnostic Products	87,591	148,389
	$ 225,086	$ 656,802

During March 2006, we discontinued the sale of our dietary supplements. Accordingly, we received no significant revenue from this product after March 2006 and anticipate no revenue from this product in the future.

Diagnostic product revenue decreased 41% from 2005 to 2006 primarily due to the termination of our United States diagnostic product sales in November 2006. In addition, in 2005, we had a one-time large diagnostic sale of approximately $25,000 in our Finland office.

Revenue from observation rights was recognized over the agreement's 12-month term using the straight-line method. Based on our current operations, we anticipate less than $50,000 of revenue for the year ending December 31, 2007.

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 35% for the years ended December 31, 2006 and 2005. The overall cost of revenue decreased 66% from 2006 to 2005 due to a similar decrease in revenue.

Gross Profit

Gross profit as a percentage of revenue was 65%, for the years ended December 31, 2006 and 2005. The percentage profit remained the same for 2006 and 2005 as the product mix did not materially change.

Selling, General and Administrative ("SG&A")

For 2006, 38% of SG&A expenses are comprised of payroll and professional fees. Expenses to operate as a public company (primarily professional fees and investor relations costs) comprise an additional 40% of the remaining SG&A expense. Other significant SG&A expenses include facility rental and insurance.

SG&A expenses increased approximately $527,000 for the year ended December 31, 2006 compared to the year ended December 31, 2005. This increase was primarily due to an increase in rent expense of $71,000 associated with the early termination of our lease in Tampa, Florida, a $165,000 increase in patent and professional fees as we work to perfect our patent holdings and $631,000 of expenses incurred for two engagements of investor relations professionals. This increase was partially offset by a reduction in payroll expenses of approximately $400,000 as we eliminated payroll associated with the supplement business, reorganized our staff to provide a greater emphasis on R&D and outsourced some of our functions.

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2006 Compared to 2005 (continued)

Research and Development ("R&D")

For the year ended December 31, 2006 and 2005 R&D expenses consisted of the following types of expenses:

	Year ended December 31,	
	2006	2005
U.S. Payroll and medical directors	58%	56%
Finland payroll and laboratory	26%	36%
Research studies	14%	4%
Other	2%	4%
	100%	100%

Expenses for research studies fluctuate from year to year as these expenses are dependent on specific initiatives and funding sources.

R&D expenses for the year ended December 31, 2006 increased $801,000 or 67% compared to the year ended December 31, 2005. This increase is summarized as follows:

Increase in utilization of outside medical directors	$ 386,000
Increase in R&D payroll	276,000
Increase in specific research studies	230,000
Decrease in Finland lab expenses and other	(91,000)
	$ 801,000

Impairment loss on intangible assets

During March 2006, we established a plan to discontinue the sale of dietary supplements. As a result of the above decision, the product rights' intangible asset was deemed fully impaired and an impairment loss of $585,000 has been recognized during the year ended December 31, 2006.

Depreciation and amortization

Approximately 93% of depreciation and amortization are related to the amortization of intangible assets acquired in the 2003 and 2004 acquisitions of NanobacLabs Pharmaceuticals, Inc. and Nanobac OY. Amortization expense decreased for the year ended December 31, 2006 compared to the year ended December 31, 2005 as the amortization of product rights was eliminated due to the impairment of this intangible asset described above.

2006 Compared to 2005 (continued)

Operating loss

Our operating loss for the year ended December 31, 2006 was $4.8 million compared to $2.8 million for the year ended December 31, 2005. This increased loss primarily reflects the increased R&D costs of $801,000, increased SG&A expenses of $471,000 primarily related to investor relations, the impairment loss on intangible assets of $585,000, and a reduction in gross profit of $312,000 due to the discontinuance of supplement and diagnostic product sales in the United States. The loss was partially decreased due to the reduction of amortization expense of $219,000.

We are experiencing significant losses as we conduct research and development related to nanobacteria and launch our products and services. We believe it will take significant time before we will earn meaningful revenue to offset our expenses and there is no assurance that we will be able to accomplish this goal. As a result of the losses, we are dependent on affiliates of our CEO and other investors to provide sufficient cash sources to fund our operations.

Other income (expense)

Other income for the years ended December 31, 2006 and 2005 is summarized as follows:

	Year ended December 31,	
	2006	2005
Interest expense		
Stockholder loan	$ (198,999)	$ (67,372)
Other	(268)	(3,513)
Loss on stock settlement obligation	0	(717,908)
Foreign exchange gain (loss)	54,915	(38,239)
Sublease of excess office space expense	(3,561)	(10,276)
Other, net	(10,906)	(12,338)
	$ (158,819)	$ (849,646)

Interest expense increased due to the higher average outstanding balance of related party loans in 2006 compared to 2005 as the Company continues to receive the majority of its funding from related parties.

The shares issued in connection with the 2005 and 2004 Subscription Agreement transactions have been presented in the accompanying consolidated balance sheets as a liability. Changes in the liability in 2005 are recorded as charges to the statement of operations as a loss on the stock settlement obligation.

Foreign currency gain results from exchange rate changes between the U.S. dollar and the Euro on Intercompany advances between our U.S. subsidiary and our Finland subsidiary.

2006 Compared to 2005 (continued)

Liquidity and Capital Resources

As of December 31, 2006, we had total assets of $7.8 million of which only $127,000 were current assets. At December 31, 2006, we had total current liabilities of $6.3 million and a working capital deficit of $6.2 million.

Since the United States Bankruptcy Court confirmed a plan of reorganization that allowed the Company to emerge from Chapter 11 during calendar 2002, the Company has financed its activities primarily through loans made by entities affiliated with our current Chief Executive Officer (referred to herein as "the Affiliated Entities") and the sale of common stock. The stockholder loans were made as funding was needed and were extremely advantageous to the Company in that the amounts were funded as the Company needed financial infusions and allowed the Company to avoid the costs and distractions of attempting to raise these amounts from unrelated parties. It is unrealistic to believe that unrelated parties would have offered terms as generous as those obtained from the Affiliated Entities, and it is also unlikely that any financing could have been obtained under any terms without the financing of the Affiliated Entities.

As discussed in Item 5, since August of 2004, the Company has received $1.4 million (net of $125,000 of expenses) from three unaffiliated investors and one affiliate for shares of the Company's stock and an equal amount of warrants to acquire additional shares of the Company's stock. The exact number of shares to be issued is dependent upon the average closing bid price of the Company's stock on the five trading days immediately prior to the date on which a registration statement for these shares is declared effective. The purchase price of the shares is equal to the lesser of (1) $.12 or (2) 52% of the average closing price described above. An additional $1.5 million is to be received from these investors within five days of registering the common shares and warrants. A registration statement has not yet been declared effective for these shares. Successful registration of the shares contemplated under the agreements discussed above will provide significant amounts of needed capital into the Company. However, there are no assurances that the SEC will declare a registration statement effective.

Net cash used in operations was $2.6 million for the year ended December 31, 2006. The negative cash flow from operations reflects the $4.9 million net loss for the year offset by the non-cash charges of $1.1 million for depreciation, amortization and impairment loss, $956,000 of expenses which were settled with the issuance of common stock and $199000 of non-cash charges for interest expenses accrued on the related party loan.

Net cash used by investing activities for the year ended December 31, 2006 was $15,000 for the purchase of fixed assets and a $3,000 security deposit.

Net cash provided by financing activities for the year ended December 31, 2006 was $2.7 million, which is attributable to the related party loans.

As noted above, cash from related party loans financed our negative cash flows from operations. We are dependent on raising additional funding necessary to implement our business plan. Should we not be successful in raising cash from our CEO and other investors, we are unlikely to continue as a going concern.

Recent Accounting Pronouncements

Critical Accounting Policies and Estimates

Valuation of goodwill and other intangibles:

Our intangible assets include goodwill patents and product rights all of which are accounted for based on Financial Accounting Standard Statement No. 142 *Goodwill and Other Intangible Assets* ("FAS 142"). As described below, goodwill is not amortized but is tested at least annually for impairment or more frequently if events or changes in circumstances indicate that the assets might be impaired. Intangible assets with limited useful lives (patents and product rights) are amortized using the straight-line method over their estimated period of benefit. We obtain a valuation of all intangibles purchased in any acquisition.

Goodwill, with a carrying value of $3.6 million, is tested for impairment using a two step method. The first step is to compare the fair value of the reporting unit to which the goodwill relates (the Company's enterprise value, or market capitalization) to its book value, including goodwill. If the fair value of the reporting unit is less than its books value, the Company then determines the implied fair value of goodwill by deducting the fair value of the reporting unit's net assets from the fair value of the reporting unit. If the book value of goodwill is greater than its implied fair value, the Company writes down goodwill to its implied fair value. There were no goodwill impairment adjustments recorded in 2006 or 2005.

The impairment test for the other intangible assets with limited useful lives is performed by comparing the carrying amount to the sum of the undiscounted expected future cash flows that relate to the respective asset. Impairment exists if the sum of the undiscounted cash flows is less than the carrying amount of the intangible asset or to its related group of assets. If that were to occur, we would record an impairment loss for any excess of the carrying value of the patents or product rights over the expected future discounted cash flows related to those assets. In that respect, we predominately use a discounted cash flow model derived from internal budgets in assessing fair values for our impairment testing. Factors that could change the result of our impairment test include, but are not limited to, different assumptions used to forecast future net sales, expenses, capital expenditures, and working capital requirements used in our cash flow models. In addition, selection of a risk-adjusted discount rate on the estimated undiscounted cash flows is susceptible to future changes in market conditions and, when unfavorable, can adversely affect our original estimates of fair values. In the event that our management determines that the value of intangible assets have become impaired using this approach, we will record an accounting charge for the amount of the impairment. We did not recognize any impairment charges with respect to our patents in either 2006 or 2005 but did recognize a $585,000 impairment charge in 2006 for the total carrying value of product rights based upon the Company's decision to terminate the marketing and sale of dietary supplements (the products to which the product rights relate).

Stock-based transactions:

In December 2004, the FASB issued SFAS No. 123R - *Accounting for Share-Based Payments*. This establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, particularly transactions in which an entity obtains employee services in share-based payment transactions. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award. The standard was effective commencing in 2006. There was no effect of adoption of this standard on the 2005 financial statement since there were no stock options granted or outstanding as of or during the year ended December 31, 2005.

We use the Black-Scholes options-pricing model to determine the fair value of each option grant as of the date of grant for expense incurred. In applying the Black-Scholes option-pricing model during fiscal 2006, we assumed no

dividend yield, risk-free interest rates ranging from 5.00% to 5.25%, expected option term of 5 years, and a volatility factor of 100%. Additionally, the Company uses the trading price of its common stock as the measure of the fair value of the Company's stock in connection with valuation of stock grant awards.

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 the reported amounts of assets and liabilities and disclosures 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.

Contractual obligations

At December 31, 2006, the Company's contractual cash obligations, with initial or remaining terms in excess of one year, were as follows:

	Amount of Commitment Expired by year ending December 31,		
	Other Liabilities	Operating Leases	Total
Less than 1 year	$ 50,000	$ 134,618	$ 184,618
1 - 2 years	-	122,775	122,775
3 - 4 years	-	29,957	29,957
Total	$ 50,000	$ 287,350	$ 337,350

The Company's contractual obligations excludes related party loans that have subsequently been converted to stockholders' equity through the issuance of common stock.

Quantitative and Qualitative Risk - Foreign Currency

While most of our operations are conducted in the United States, we also operate a laboratory in Kuopio Finland. We face two risks related to foreign currency exchange: translation risk and transaction risk. Amounts invested in our Finland operations are translated into US Dollars at the exchange rates in effect at the balance sheet date. Since the functional currency of our Finland subsidiary is the local currency, foreign currency translation of the balance sheet is reflected as a component of stockholders' equity and does not impact operating results.

Our Finland subsidiary collects revenue and pays expenses in Euros, mitigating transaction risk. Revenues and expenses in Euros translate into varying amounts of US Dollars depending upon whether the US Dollar weakens or strengthens against the Euro. Therefore, changes in exchange rates may negatively affect the Company's consolidated revenues and expenses (as expressed in US Dollars) from foreign operations.

Currency transaction gains or losses are incurred on our US Subsidiary's intercompany advance to our Finland Subsidiary. We recognize a gain on the intercompany advance as the US Dollar weakens against the Euro and we recognize a loss when the US Dollar strengthens against the Euro. Our net currency gain for 2006 was $55,000.

The Company has not entered into a material amount of foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

Forward Looking Statements

Our disclosure and analysis in this 2004 Form 10-KSB/A contains some forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 (“the Act”), that set forth anticipated results based on our plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical and current facts. We have tried wherever possible to identify such statements by using words such as “anticipate”, “estimate”, “expect”, “project”, “intend”, “plan”, “believe”, “ similar expressions in connection with any discussion of future operating or financial performance.

In light of the important factors that can materially affect results, including those set forth above and elsewhere in this report, the inclusion of forward-looking information herein should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. We may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to market our products and services; competitive conditions within our industry may change adversely; we may be unable to retain existing key management personnel; our forecasts may not accurately anticipate market demand; and there may be other material adverse changes in our operations or business. Certain important factors affecting the forward looking statements made herein include, but are not limited to (i) accurately forecasting capital expenditures; (ii) obtaining new sources of external financing; (iii) serving as the nexus for nanobacteria research and (iv) conducting successful clinical trials supporting our theories that the human body does not recognize nanobacteria as harmful, and accordingly, nanobacteria could be the cause of pathological disease causing calcification found in multiple diseases. Assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its capital expenditure or other budgets, which may in turn affect the Company's financial position and results of operations.

Risk Factors

Trends, Risks and Uncertainties

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. You should not consider the risks and assumptions identified in this report to be a complete discussion of all potential risks and uncertainties affecting the Company. Investors should carefully consider all risk factors before making an investment decision with respect to our Common Stock.

Cautionary Factors that may affect Future Results

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Risk Factors (continued)

We require additional financing in order to continue in business as a going concern, the availability of which is uncertain. We may be forced by business and economic conditions to accept financing terms which will require us to issue our securities at a discount, which could result in further dilution to our existing stockholders.

As discussed under the heading, "Management's Discussion and Analysis - Liquidity and Capital Resources," we require additional financing to fund our operations. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. In addition, any additional equity financing may involve substantial dilution to our stockholders. If we fail to raise sufficient financing to meet our immediate cash needs, we will be forced to scale down or perhaps even cease the operation of our business, which may result in the loss of some or all of your investment in our common stock.

In addition, in seeking debt or equity private placement financing, we may be forced by business and economic conditions to accept terms which will require us to issue our securities at a discount from the prevailing market price or face amount, which could result in further dilution to our existing stockholders.

Liquidity and Working Capital Risks; Need for Additional Capital to Finance Growth and Capital Requirements

Throughout 2006 and 2005, affiliates of our Chief Executive Officer have provided our capital needs through loans and capital contributions. While these affiliates continue to provide for the majority of our cash requirements, they are under no obligation to continue such financing and/or strategic guidance. In the event these affiliates should discontinue their support, we may have difficulty in continuing our operations. In such an event, stockholders could lose their investment in its entirety. Historically, these affiliates have provided capital to us on a demand debt basis after which they may convert debt into shares of our common stock. If, in the future we require additional capital, these affiliates may contribute some or all of our requirements. We anticipate that as a part of any such loan, these affiliates would have rights to convert into additional shares of our common stock. In such an event and to the degree of which we require these affiliates' support, stockholders may experience dilution. At present, we do not maintain key man insurance for our CEO.

In addition to the financial support we may receive from affiliates of our CEO, we may continue to seek to raise capital from public or private equity or debt sources to provide working capital to meet our general and administrative costs until net revenues make the business self-sustaining. We cannot guarantee that we will be able to raise any such capital on terms acceptable to us or at all. Such financing may be upon terms that are dilutive or potentially dilutive to our stockholders. If alternative sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans in accordance with the extent of available funding.

Risk Factors (continued)

We have a history of operating losses and fluctuating operating results, which raise substantial doubt about our ability to continue as a going concern.

Since inception through December 31, 2006, we have incurred aggregate losses of $22.3 million. Our net loss for the year ended December 31, 2006 and 2005 was $4.9 million and $3.7 million, respectively. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, we anticipate incurring losses from operations over the next two years as we focus on research and development for eventual drug discovery and the development of diagnostic products. Consequently, we expect to incur operating losses and negative cash flow until our products gain market acceptance sufficient to generate a commercially viable and sustainable level of sales, and/or additional products are developed and commercially released and sales of such products made so that we are operating in a profitable manner.

Potential Incorrect Conclusions on the Detection and Eradication of Nanobacteria

Most of our future revenue is based on our ability to detect and eradicate Nanobacteria. If it is ultimately proved that our diagnostic methodologies and treatment regimens as covered by our patents are ineffective or based upon incorrect scientific conclusions, our existing patents and product lines may lose most or all of their value. Further, if we are unsuccessful in leveraging our diagnostic and therapeutic products to detect and treat nanobacterial diseases, we may not generate sufficient revenue to offset our expenses.

Acceptance of Products in the Marketplace is Uncertain.

Our future financial performance will depend, at least in part, upon the introduction and customer acceptance of our proposed treatments and products. Our treatments and products may not achieve market acceptance, and such adverse marketing results could materially harm the Company.

Intellectual Property Rights

We have a family of patents encompassing the detection and eradication of nanobacteria. There are risks inherent in any intellectual property rights in that they may be challenged as being invalid or not original. Additionally, other parties may abuse such intellectual rights, causing the Company to defend its rights.

Risk Factors (continued)

Limited Operating History Anticipated Losses; Uncertainty of Future Results

We have a limited operating history upon which an evaluation of our Company and our prospects can be based. Our prospects must be evaluated with a view to the risks encountered by companies in early stages of development, particularly in light of the uncertainties relating to the new and evolving biolife science research which we intend to develop and market, and the acceptance of our business model. We will be incurring costs to: (i) perform research studies to prove the effectiveness of our pharmaceutical products, (ii) further develop and market our products; (iii) establish distribution relationships; and (iv) build an organization. To the extent that such expenses are not subsequently followed by commensurate revenues, our business, results of operations and financial condition will be materially adversely affected. We, therefore, cannot insure that we will be able to immediately generate sufficient revenues. We expect negative cash flow from operations to continue for at least the next 12 months as we continue to develop and market our business. If cash generated by operations is insufficient to satisfy our liquidity, we may be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in additional dilution to our stockholders. Our initial operations may not be profitable, since time will be required to build our business to the point that our revenues will be sufficient to cover our total operating costs and expenses. Our reaching a sufficient level of sales revenues will depend upon a large number of factors, including availability of sufficient working capital, the number of customers we are able to attract and the costs of continuing development of our product line.

Federal Food and Drug Administration

Some or all of our products may be governed by rules and regulations established by the United States Food and Drug Administration (“FDA”). Changes in FDA regulations and the enforcement thereof may affect our biolife science business. Furthermore, we may not be successful in filing and obtaining approval of our 510K or PMA filings with the FDA for our Nano-Capture Antigen and Nano-Sero IgG ELISA assays.

Data Obtained Through Clinical Trials.

Data obtained from pre-clinical studies and clinical trials do not necessarily predict results that will be obtained from later pre-clinical studies and clinical trials. Moreover, pre-clinical and clinical data is susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in earlier trials. The failure to adequately demonstrate the safety and/or effectiveness of an intended product under development could delay or prevent regulatory clearance of the potential drug or treatment, resulting in delays to commercialization, and could materially harm the business.

Competitors in the Pharmaceutical Industry May Develop Competing Technologies

Drug companies and/or other health care companies may seek to develop and market technologies which may compete with our Company’s technology. While we believe that our technology regarding the prescription treatment of nanobacterial infections caused by nanobacterium sanguineum is unique, other competitors may develop similar or different treatments which may become more accepted by the marketplace.

Risk Factors (continued)

Risk of Third Party Lawsuits.

We are exposed to potential product liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. We cannot assure potential investors that such claims will not be asserted against the Company. A successful liability claim or series of claims brought against us could have a material adverse effect on our financial condition. In addition, we may be sued by third parties who claim that our products and treatments infringe upon the intellectual property rights of others or that we have misappropriated trade secrets of others. This risk is exacerbated by the fact that the validity and breadth of claims covered in medical technology patents and the breadth and scope of trade secret protection involve complex legal and factual questions for which important legal principles are unresolved. Any litigation or claims against us, whether or not valid, could result in substantial costs, could place a significant strain on our financial resources, and could harm our reputation.

Government Regulation

Healthcare in general and the pharmaceuticals industry in particular are highly regulated markets, subject to both federal and a multitude of state regulations and guidelines. The majority of our business is still in clinical research applications and is governed by the medical community. There can be no assurance that changes to state or federal laws will not materially restrict our ability to sell our products or develop new product lines.

Competition

The markets in which we compete include successful and well-capitalized competitors that vary in size and scope. Principal competitors include Pfizer, Merck and other pharmaceutical companies having unique treatments for cardiovascular disease. All of these competitors are more established, benefit from greater name recognition and have substantially greater resources than us. Moreover, we could face additional competition as other established and emerging companies enter the market and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer subscriptions, reduced gross margins and loss of market share, any of which could materially adversely affect our business, financial condition and operating results. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third-parties, thereby increasing the ability of their products to address the needs of our prospective consumers. While we believe we can differentiate our product from these current and future competitors, focusing on the products' functionality, flexibility, adaptability and features, there can be no assurance that we will be able to compete successfully against current and future competitors. The failure to effectively compete would have a material adverse effect upon our business, financial condition and operating results.

Dependency upon Key Technical and Scientific Personnel Who May Terminate Employment at Any Time.

Our success will depend to a significant degree upon the continued services of key technical and scientific personnel, including but not limited to E. Olavi Kajander, MD, PhD. In addition, our success may depend on our ability to attract and retain other highly skilled personnel. Competition for qualified personnel is intense, and the process of hiring and integrating such qualified personnel is often lengthy. We may be unable to recruit personnel on a timely basis, if at all. All of the Company’s management and other employees may voluntarily terminate their employment with us at any time. The loss of the services of key personnel, or the inability to attract and retain additional qualified personnel, could result in delays to development, loss of sales, and/or diversion of management resources that could have a material adverse affect on the Company.

Risk Factors (continued)

Lack of Independent Directors

We cannot guarantee our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, who are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company's stockholders and the controlling officers and/or directors.

Limitation of Liability and Indemnification of Officers and Directors

Our officers and directors are required to exercise good faith and high integrity in our management affairs. Our Articles of Incorporation and By Laws provide, however, that our officers and directors shall have no liability to our stockholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or stock repurchase, or derived an improper benefit from the transaction. Our Articles and By-Laws also provide for the indemnification by us of the officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate our business or conduct the internal affairs, provided that in connection with these activities they act in good faith and in a manner they reasonably believe to be in, or not opposed to, the best interests of the Company, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

Continued Control by Current Officers and Directors

The present officers and directors control approximately 50% of the outstanding shares of Common Stock, and are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of the Company, the appointment of officers, and the determination of officer's salaries. Stockholders have no cumulative voting rights.

Risk Factors (continued)

Limited Market Due To Penny Stock

The Company's stock differs from many stocks, in that it is a "penny stock." The Securities and Exchange Commission has adopted a number of rules to regulate penny stocks. These rules include, but are not limited to, Rules 3a5l-l, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6 and 15g-7 under the Securities and Exchange Act of 1934, as amended. Because our securities probably constitute penny stock within the meaning of the rules, the rules would apply to us and our securities. The rules may further affect the ability of owners of our stock to sell their securities in any market that may develop for them. There may be a limited market for penny stocks, due to the regulatory burdens on broker-dealers. The market among dealers may not be active. Investors in penny stock often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make. Because of large dealer spreads, investors may be unable to sell the stock immediately back to the dealer at the same price the dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all. Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include: - Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; - Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; - "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons; - Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and - The wholesale dumping of the same securities by promoters and broker- dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses. Furthermore, the penny stock designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in penny stock is suitable for customers. Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than $2,000,000 (if the issuer has been in continuous operation for at least three years) or $5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than $6,000,000 for the last three years. Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock." Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

Item 7. Financial Statements

The information required by this item is incorporated herein by reference to the financial statements listed in Item 13 (a) of Part III of this Form 10-KSB Annual Report.

Item 8. Changes in and Disagreements with Independent Auditors on Accounting and Financial Disclosures

There have been no disagreements with any of our accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 8(a). Controls and Procedures

Disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer and principal financial officer have concluded that there are material weakness in our internal controls and procedures.

During the quarter ended June 30, 2006, we neglected to record the issuance of 8,000,000 shares of common stock and the resultant charge to operations of $560,000. To correct this material weakness, we have instituted procedures whereby we will reconcile our stock records to the transfer agenet records on a quarterly basis.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Item 8(a). Controls and Procedures (continued)

Section 404 of the Sarbanes-Oxley Act of 2002

Section 404 of the Sarbanes-Oxley Act of 2002 requires our report on Form 10-KSB for 2007 to include a report of management on internal control over financial reporting. Internal control over financial reporting, as defined under these rules, is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

In our report, we will be required, among other things, to assess the effectiveness of our internal control over financial reporting. The report must also disclose any material weaknesses in internal control over financial reporting identified by management, and if there are any material weaknesses, we must conclude that our internal control over financial reporting was not effective. A material weakness, under the applicable rules, is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

In conducting our ongoing assessment of its internal control over financial reporting to prepare for compliance with the requirements under Section 404 of the Sarbanes-Oxley Act, we have identified a lack of segregation of duties to be a potential material weakness in internal controls. Lack of segregation of duties is inherent to our company due to the small number of employees. Our assessment is still in process to determine if this situation is actually a material weakness or if there are any other material weaknesses. We have also identified our procedures for accounting for stock-based transactions as having a material weakness. To correct this material weakness, we have instituted procedures whereby we will reconcile our stock records to the transfer agent records on a quarterly basis.

Changes in internal controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation except for the material weakness and our corrective plan as described above.

PART III

Item 9. Directors and Executive Officers of the registrant

Name	Position Held with the Company	Age	Date First Elected or Appointed
John Stanton	Chief Executive and Financial Officer, and Chairman	58	November 2000
Alex Edwards	Director	42	March 2003 and January 2004
Dr. Benedict Maniscalco	Director	65	March 2006
Dr. Stephen Rechtschaffen	Director	57	January 2004

Business Experience

The following is a brief account of the education and business experience during at least the past five years of each director and executive officer, indicating the principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

John Stanton - Chairman Chief Executive Officer and Chief Financial Officer - Mr. Stanton has served as our Chief Executive Officer ("CEO") July 23, 2004 to present and from March 2001 through January 2004. From March, 2001 through the present, Mr. Stanton has served as our Chairman of the Board of Directors and Chief Financial Officer. From 1987 through the present, Mr. Stanton served as the President and CEO of Florida Engineered Construction Products, Corporation. Mr. Stanton has served as Chairman of the Board of Directors of publicly-traded EarthFirst Technologies, Inc. from May 15, 2000 through the present. Mr. Stanton also serves on the Board of Directors of publicly traded Medical Technology Systems, Inc., Powercerv Corporation, Cybercare, Inc. and Online Sales Strategies, Incorporated. Since the early 1990's, Mr. Stanton has been, and continues to be, involved in turn-around management for financially distressed companies, providing both management guidance and financing. In 1981, Mr. Stanton assumed the role of Chief Financial Officer for Florida Engineered Construction Products, Corporation, a privately held manufacturer of residential and commercial construction products, located in Tampa, Florida. Mr. Stanton worked as an auditor with the international professional services firm that is now known as Ernst & Young, LLP from 1973 through 1981. Mr. Stanton, a Vietnam veteran of the United States Army, graduated from the University of South Florida with a Bachelors Degree in Marketing and Accounting in 1972, and with an MBA in 1973. Mr. Stanton earned the designation of Certified Public Accountant in 1974 and was a Sells Award winner in the CPA examination.

Dr. Benedict S. Maniscalco, M.D. - Director of Clinical Research, Medical Director and member of the Board of Directors - Dr. Maniscalco joined the Board of Directors on March 29, 2006. 2001 to present Dr. Maniscalco has been in the private practice of cardiology. He was with Tampa Heart Center in Tampa Florida in 2000 to 2001. Dr. Maniscalco was in private practice for consultive cardiology with Health Centers of Excellence, Inc. as Chief Executive Officer in Tampa Florida from March 1998 thorough January 2000. From 1976 through 1998, he was an officer and board member of a large multi specialty cardiovascular group practice. From 1979 through 1996 he was co-founder of St. Joseph's Heart Institute in Tampa, Florida and served as Director of Cardiac Catheterization and Director of Cardiology during his tenure.

Over past 30 years, Dr. Maniscalco has been a member of numerous local, state and national professional societies. He has served as President and Governor of the Florida Chapter of the American College of Cardiology and has been involved in numerous committees dealing with socioeconomic and medical policies in both the American College of Cardiology and the Society for Cardiac Angiography and Interventions. He has been a frequent lecturer at the local, state and national level, on both clinical and non-clinical matters affecting the delivery of cardiovascular services. Dr. Maniscalco received his medical degree from the Duke University School of Medicine in 1967. He interned at Grady Memorial Hospital in Atlanta and did his junior and senior residencies at Emory University Affiliated Hospitals, followed by a fellowship in Cardiovascular diseases from 1973-1975. He is licensed to practice in both Florida and Georgia and is certified by the American Board of Internal Medicine and the American Sub-Specialty Board in Cardiovascular disease.

Alex Edwards - Director - Mr. Edwards has served on our Board of Directors from January 2004 through the present. Mr. Edwards had previously served on our Board from March 2003 through May 2003. From January 2004 through July 2004, Mr. Edwards served as our CEO. From March 2003 through January 2004, Mr. Edwards served as our Executive Vice President and Chief Operating Officer. From May 2002 through December 2004, Mr. Edwards was a managing partner of 360 Partners as well as president and CEO of 360 Energy, Inc. From January 1997 to May 2002, Edwards was an executive with SRI/Surgical Express. He served in roles that ranged from vice-president/general manager to spending his last year with the company as president. From February 1993 through December 1996, he worked in sales and marketing with Dianon Systems, Inc. His positions included sales and sales management roles as well as field and corporate marketing. Mr. Edwards also served as an officer in the United States Navy with duty assignments ranging from shipboard divisional leadership to executive assistant for the Naval Surface Group Commander in Norfolk, Virginia. Mr. Edwards is a 1987 graduate of the United States Naval Academy.

In August 2003 Mr. Edwards settled a civil enforcement action brought against him by the Securities and Exchange Commission in U.S. District Court in Tampa, Florida. The complaint alleged that Mr. Edwards, while serving as president of SRI/Surgical Express, Inc. (SRI), a publicly traded Florida hospital supply company, caused SRI to enter into two transactions that resulted in SRI overstating its Fiscal 2001 third quarter revenue. Without admitting or denying the allegations in the complaint, Mr. Edwards consented to the entry of a Final Judgment permanently enjoining him from future violations of (or aiding and abetting violations of) Sections 10(b), 13(b)(5), and 13(b)(2)(A) and (B) of the Securities Exchange Act of 1934 and Exchange Act Rule 13b2-1. The Final Judgment also imposed a $50,000 civil penalty.

Dr. Stephan Rechtschaffen - Director -Dr. Rechtschaffen joined the Board of Directors on February 2, 2004. He co-founded Omega Institute in 1977 and is the present CEO and Chairman of the Board. He was the developer and director of Foxhollow Wellness Spa in Lenox, MA from September 1987 through June 1989, and director of the Rhinebeck Health Center in Rhinebeck, NY, from November 1983 through March1989. Dr. Rechtschaffen is the author of: *TimeShifting; Creating More Time to Enjoy Your Life*, 1996, published in the United States by Doubleday, and in England, Europe, Japan and Australia by Random House. He is co-author of *Vitality and Wellness*, 1999, published by Dell. Dr. Rechtschaffen received his medical degree in 1973 from New York Medical College in New York City. His residency was at Harkness Community Hospital in San Francisco.

Family Relationships

There are no family relationships between any of our company's directors or executive officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Exchange Act requires Nanobac's directors and officers and persons who own more than 10% of a registered class of Nanobac's equity securities, to file initial reports of ownership and reports of changes in ownership with the SEC. Such persons are required by SEC regulations to furnish Nanobac with copies of all Section 16(a) forms they file.

Specific due dates for such reports have been established by the Commission and the Company is required to disclose any failure to file reports by such dates. The Company notes that John Stanton, Alexander Edwards, Benedict Maniscalco and Gary Mezo have not filed any reports of ownership or changes in ownership pursuant to Section 16(a) filing requirements.

Audit Committee

We have not established a separate audit committee. Accordingly, the Board of Directors serves as the audit committee. The Chairman of the Board of Directors is also our CEO and is not considered an independent director. An audit committee financial expert has not been identified on the Board of Directors.

Code of Ethics

We have not adopted a Code of Ethics as of May 1, 2007. The Board of Directors is in the process of drafting a Code of Ethics specific to our Company.

Item 10. Executive Compensation

Particulars of compensation awarded to, earned by or paid to:

(a) our company's chief executive officer (the "CEO");

(b) eachof our company's four most highly compensated executive officers who were serving as executive officers at the end of the most recently completed fiscal year and whose total salary and bonus exceeds $100,000 per year; and

(c) any additional individuals for whom disclosure would have been provided under

(d) but for the fact that the individual was not serving as an executive officer of our company at the end of the most recently completed fiscal year

the Named Executive Officers are set out in the summary compensation table below.

Name and Principal Position	Year	Annual Compensation Salary	Bonus	Other Annual Compensation	All Other Compensation (1)
John D. Stanton (2)	2006	$0	$0	$0	$0
Chairman of the Board and	2005	$0	$0	$0	$0
Chief Executive Officer and	2004	$0	$0	$0	$0
Chief Financial Officer					
Alex Edwards (3)	2006	$23,660	$0	$0	$0
Board of Director member	2005	$6,123	$0	$0	$0
former Chief Executive Officer	2004	$228,536	$0	$5,000	$0
Benedict S Maniscalco (4)	2006	$0	$0	$113,462	$0
Director of Clinical Research					
Board of Director member					

1) In accordance with SEC rules, other compensation in the form of perquisites and other personal benefits is omitted, such perquisites and other personal benefits constituted less than the lesser of $50,000 or 10% of the total annual salary and bonus for the Named Executive Officer for such year.

2) Mr. Stanton has served as the Chairman of the Board of Directors and Chief Financial Officer since March 2001 and served as Chief Executive Officer from March 2001 through January 2004 and July 2004 through present.

3) Mr. Edwards commenced employment with Nanobac in March 2003 and was named Chief Executive Officer in January 2004. He relinquished the Chief Executive Officer role in July 2004.

4) Dr. Maniscalco joined Nanobac’s Board of Directors in March 2006. He received consulting compensation in 2006 for his services as Director of Clinical Research.

Employment and Compensation Agreement

John Stanton - Mr. Stanton does not have an employment or similar agreement with Nanobac. To date, Mr. Stanton has received no salary or other compensation for the past three years.

Alexander Edwards - On July 23, 2004, Mr. Edwards resigned as Chief Executive Officer. Mr. Edwards continues to serve as a member of the Board of Directors. As a result of his resignation as Chief Executive Officer, Mr. Edwards voluntarily terminated his employment agreement and his salary was adjusted to $23,660 for the performance of limited services to Nanobac from July 2004 through April 1, 2005 and from January 2006 through present.

Benedict Maniscalco - Dr. Maniscalco has a consulting agreement with Nanobac to perform services as Director of clinical Research under a non-employee consulting agreement.

Directors' Compensation

Nanobac's directors receive non-monetary compensation for their director services. Each director is entitled to receive reimbursement of out-of-pocket expenses for attending Board of Director or committee meetings. Each independent Director is eligible to receive options to acquire 1,500,000 shares of Nanobac's common stock. During January 2007, in lieu of issuance of stock options, the Board of Directors issued the following shares of common stock to members of the Board of Directors:

Pangea Ultima (an affiliate of John Stanton)	3,000,000
Alexander Edwards	3,000,000
Benedict Maniscalco	3,000,000
Stephan Rechtschaffen	3,000,000
	12,000,000

The above stock was estimated to be worth $1.6 million on the date of issuance.

Compensation Committee Interlocks and Insider Participation

The Company has not formed a Compensation Committee, accordingly, the Board of Directors acts in the Compensation Committee's capacity. The Board of Directors is responsible for reviewing and recommending salaries, bonuses and other compensation for Nanobac's executive officers.

Mr. Edwards is currently on the Board of Directors and was an employee of the Company from September 2003 through March 2004 and January 2006 through the present.

Stock Options

No stock options have ever been granted to any of the Named Executive Officers of Board of Director members.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Principal Stockholders The following table sets forth, as of May 1, 2007, certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class[(1)]
Gary S. Mezo (3) 11407 Minaret Drive Tampa, FL 33626	24,560,000	9.93%
John D. Stanton (4) (5) (6)	107,442,658	43.45%
Alexander Edwards III (5) (6)	12,166,667	4.92%
Benedict Maniscalco	4,566,925	1.85%
Stephan Rechtschaffen	3,000,000	1.21%
Directors and Executive Officers as a Group (Four persons)	**127,176,250**	**51.43%**

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. For purposes of calculating the percentage beneficially owned, the number of shares deemed outstanding includes 247,476,426 shares outstanding as May 1, 2007. Unless otherwise provided, the street address of each beneficial owner is c/o Nanobac Pharmaceuticals, Incorporated, 4730 N. Habana Avenue, Suite 205, Tampa, Florida 33614.

(2) Nanobac has relied upon information reported by the respective stockholder to the SEC pursuant to Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended, as of May 1, 2007.

(3) Includes 9,760,000 shares held by Mr. Mezo's spouse, Nancy Schriewer, and 160,000 shares held by Nancy Schriewer's father as to which he disclaims beneficial ownership.

(4) Includes 82,442,658 shares held by the corporate entities of Escape Velocity of Tampa Bay, Inc., White Knight SST, Inc., Stone Enclosure, Inc., Wade Inc. of Tampa Bay, Denouement Strategies, Inc., Pagena Ultima, Inc., Vital Trust Business Development Corp., and Saint Anton Capital Corporation in which Mr. Stanton owns a controlling ownership.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change of control of Nanobac.

Item 12. Certain Relationships and Related Transactions

Loans from Entity Affiliate with the Company's Chief Executive Officer

Since emerging from bankruptcy in November 2002, Nanobac has financed its activities primarily from advances from affiliates of the Company's CEO ("CEO Affiliates"). From time to time the CEO Affiliates have converted these loans into shares of Nanobac's common stock with the most recent conversion in January 2007 when $4.6 million of the CEO Affiliate loans were converted to 30,000,000 shares of our common stock. As of May 1, 2007, $1.2 million is due to CEO Affiliates for the remaining cash loans to Nanobac. These loans bear interest at the rate of 5% per annum.

Subscription Agreement

During December 2004, the Company entered into a Subscription Agreement with a CEO Affiliate. Under the terms of the Subscription Agreement, the entity converted a $500,000 loan to equity. During 2006, the CEO Affiliate was assigned future stock subscription and warrant rights from two unaffiliated investors. In accordance with these subscription agreements, the Company is to receive additional cash of $825,000 within five days of registering the common shares and warrants issued as a result of the Subscription Agreements. The number of common shares to be issued is equal to the amount received divided by the lesser of $.12 or 52% of the average closing bid price of the Company's common stock on the five trading days immediately prior to the date on which the registration statement is declared effective ("Fixed Price"). In addition, the Subscription Agreement provided for the issuance of warrants equal to the number of common shares issued. Fifty percent (50%) of the warrants are exercisable at 110% of the Fixed Price and the remaining 50% of the warrants are exercisable at 150% of the Fixed Price. Unexercised warrants will expire December 31, 2008.

As of May 1, 2007, the registration statement has not been declared effective and the Fixed Price has not been determined. Accordingly, the additional cash of $825,000 for common shares has not been received, no warrants have been issued and the number of shares to be issued under this subscription agreement has not been determined.

Item 13. Exhibits

(a) The following documents are filed as part of this report:

(1) Financial Statements

The following Financial Statements are included herein:

(b) Form 8-K

(1) Reports on Form 8-K filed during the quarter ended December 31, 2006:

None

(c) Exhibits

The following exhibits are filed as a part of, or are incorporated by reference into, this Report on Form 10-KSB:

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Articles of Incorporation (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference)
3.2	By-Laws (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2002 and incorporated herein by reference)
10.1	First Amended Plan of Reorganization of American Enterprise.com Corp. (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated December 10, 2002, and incorporated herein by reference)
10.2	Acquisition Agreement dated December 6, 2002, between American Enterprise Corporation and HealthCentrics, Inc. and its stockholders (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated December 13, 2002, and incorporated herein by reference)
10.4	Agreement and Plan of Reorganization dated June 1, 2003 between Nanobac Pharmaceuticals, Incorporated and NanobacLabs Pharmaceuticals, Inc. (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference)
10.5	Share Purchase Agreement dated September 25, 2002 between NanobacLabs, L.L.C. and selected stockholders of Nanobac OY (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated November 26, 2003, and incorporated herein by reference)
10.6	Convertible Promissory Note Loans Purchase Agreement dated September 25, 2002 between NanobacLabs, L.L.C. and selected stockholders of Nanobac OY (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated November 26, 2003, and incorporated herein by reference)
10.7	Closing Agreement dated November 5, 2003 between NanobacLabs, L.L.C. and selected stockholders of Nanobac OY (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated November 26, 2003, and incorporated herein by reference)
10.9	Lease Agreement dated April 17, 2002 between NanobacLabs, L.L.C. and MLK-Tampa Associates, LLC regarding 5,593 square feet of office space located at 2727 W. Martin Luther King Blvd. - Suite 850, Tampa, Florida and First Amendment to Lease dated September 1, 2002 between NanobacLabs, L.L.C. and MLK-Tampa Associates, LLC regarding 2,121 square feet of office space located at 2727 W. Martin Luther King Blvd. - Suite 101, Tampa, Florida (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.10 Loan Agreement dated December 31, 2003 between Nanobac Pharmaceuticals, Incorporated and Escape Velocity, Inc. (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2003)

10.11 Employment by and between Nanobac Pharmaceuticals, Incorporated and Alex H. Edwards III dated January 26, 2004 (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2003)

10.12 Sublease Agreement dated May 18, 2004 between NanobacLabs, L.L.C. and Tampa Bay Surgery Center Associates, Ltd regarding the sublease of 2,121 square feet of office space located at 2727 W. Martin Luther King Blvd. - Suite 101, Tampa, Florida (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.13 Share Purchase Agreement dated March 30, 2004 between Nanobac Pharmaceuticals, Incorporated and Escape Velocity of Tampa Bay, Incorporated for the sale of HealthCentrics, Inc. (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated March 30, 2004, and incorporated herein by reference)

10.14 Executive Employment Agreement between Nanobac Pharmaceuticals, Incorporated, and E. Olavi Kajander, MD, PhD, an individual dated January 15, 2004 (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated March 31, 2004, and incorporated herein by reference)

10.15 Executive Employment Agreement between Nanobac Pharmaceuticals, Incorporated and Neva Ciftcioglu, PhD, an individual dated March 31, 2004 (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated March 31, 2004, and incorporated herein by reference)

10.16 Nonreimbursable Space Act Agreement between The National Aeronautics and Space Administration Lyndon B. Johnson Space Center and Nanobac Pharmaceuticals, Incorporated (Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K dated September 13, 2004 and incorporated herein by reference)

10.17 Debt Cancellation Agreement dated August 30, 2004 between Nanobac Pharmaceuticals, Incorporated and E. Olavi Kajander (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.18 Amendment to Executive Employment Agreement dated August 30, 2004 between Nanobac Pharmaceuticals, Incorporated and E. Olavi Kajander (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.19 Stock Purchase Agreement dated August 30, 2004 between Nanobac Pharmaceuticals, Incorporated and E. Olavi Kajander (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.20 Amendment to Executive Employment Agreement dated September 10, 2004 between Nanobac Pharmaceuticals, Incorporated and Neva Ciftcioglu (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.21 Subscription Agreement, Registration Rights Agreement and Form of Warrant dated August 13, 2004 between Nanobac Pharmaceuticals, Incorporated and The Nutmeg Group, LLC (serves as form of agreement for similar subscription agreements)

10.22 Subscription Agreement, Registration Rights Agreement and Form of Warrant dated September 3, 2004 between Nanobac Pharmaceuticals, Incorporated and Jaytern Associates, Inc (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.23 Debt Cancellation Agreement dated September 20, 2004 between Nanobac Pharmaceutical, Incorporated and Escape Velocity, Inc. (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.24 Debt Cancellation Agreement dated October 18, 2004 between Nanobac Pharmaceutical, Incorporated and Benedict Maniscalco (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.25 Debt Cancellation Agreement dated December 14, 2004 between Nanobac Pharmaceutical, Incorporated and MacFarlane Ferguson & McMullen (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2005 and incorporated herein by reference)

10.26 Second amendment to lease agreement between Nanobac Sciences, LLC and CNL Retirement MOP Tampa, Florida, LP regarding reduction of 5,593 square feet of office space located at 2727 W. Martin Luther King Blvd. - Suite 850, Tampa, Florida to 4.053 square feet of office space (Previously filed with the SEC as an exhibit to the Registrant's Annual Report on Form 10-KSB fore the year ended December 31, 2006 and incorporated herein by reference)

10.27 Agreement with Calgenex Corporation

10.28 Amendment to Executive Employment Agreement dated June 8, 2006 between Nanobac Pharmaceuticals, Incorporated and E. Olavi Kajander, MD, PhD, an individual.

10.29 Amendment to Executive Employment Agreement dated September 1, 2006 between Nanobac Pharmaceuticals, Incorporated and Neva Ciftcioglu, PhD, an individual.

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21.1	List of Subsidiaries
23.1	Consent of Aidman, Piser & Company, P.A.
31.1	Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
31.2	Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer

Item 14. Principal Accountant Fees and Services

The following summarizes the fees paid to Aidman, Piser & Company, P.A., Independent Auditors for the years ended December 31, 2006 and 2005:

	2006	2005
Audit	$ 114,000	$ 71,365
Audit related	-	$ 22,040
Tax	-	-
Other	-	-
Total	$ 114,000	$ 93,405

Audit-Related fees are attributable to (i) services performed in connection with SB-2 registration statement and (ii) services performed in connection with the SEC comment letter on our 2004 Form 10-KSB. Aidman, Piser & Company, P.A. did not perform any professional services with respect to information systems design and implementation for the years ended December 31, 2006 and 2005.

The Board of Directors has considered whether the Audit-Related services provided by Aidman, Piser & Company, P.A. are compatible with maintaining that firm's independence.

From and after the effective date of the SEC rule requiring Audit Committee pre-approval of all audit and permissible non-audit services provided by independent registered public accountants, the Board of Directors has approved audit services provided by Aidman, Piser & Company, P.A. There were no such non-audit services in 2006 or 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, on May 1, 2007.

Nanobac Pharmaceuticals, Incorporated

By: /s/ John D. Stanton

John D. Stanton
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on May 1, 2007.

Signature	Title
/s/ John D. Stanton John D. Stanton	Chairman of the Board of Directors Chief Executive Officer and Chief Financial Officer (Principal Executive, Financial and Accounting Officer)
/s/ Benedict S. Maniscalco Benedict S. Maniscalco, M.D.	Director, Director of Clinical Research and Medical Director
/s/ Alexander Edwards III Alexander Edwards III	Director
/s/ Stephan Rechtschaffen Stephan Rechtschaffen, M.D.	Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Nanobac Pharmaceuticals, Incorporated
and Subsidiaries
Tampa, Florida

We have audited the accompanying consolidated balance sheet of Nanobac Pharmaceuticals, Incorporated and Subsidiaries (the "Company"), as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nanobac Pharmaceuticals, Incorporated and Subsidiaries, at December 31, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has working capital and net capital deficiencies and is dependent upon continued financing from stockholders and/or outside investors, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Aidman Piser & Company, P.A.
May 3, 2007
Tampa, Florida

NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

		December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash	$	39,505
Accounts receivable		708
Inventory		66,352
Prepaid expenses		19,938
Total current assets		126,503
FURNITURE AND EQUIPMENT, less accumulated depreciation of $105,534		60,321
OTHER ASSETS		
Security deposits		58,503
Intangible assets, less accumulated amortization of $1,279,041		3,964,001
Goodwill		3,615,393
Total other assets		7,637,897
TOTAL ASSETS	$	7,824,721
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$	408,665
Accrued compensation		87,385
Accrued expenses and other current liabilities		436,590
Related party loans, including $504,328 of accrued interest		5,367,205
Total current liabilities		6,299,845
LONG-TERM LIABILITIES		
Stock settlement obligation:		
Related party		961,538
Other		1,875,000
Total liabilities		9,136,383
COMMITMENTS AND CONTINGENCIES (notes 10, 11 and 12)		-
STOCKHOLDERS' DEFICIT		
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued and outstanding		-
Common stock, no par value, 250,000,000 shares authorized, 205,473,426 shares issued and outstanding		17,260,050
Additional paid-in capital		3,803,031
Accumulated deficit		(22,353,888)
Accumulated other comprehensive loss		(20,855)
Total stockholders' deficit		(1,311,662)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	7,824,721

The accompanying notes are integral part of these financial statements

NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2006	Year ended December 31, 2005
REVENUE	$ 225,086	$ 656,802
COST OF REVENUE, exclusive of depreciation and amortization shown below	79,805	229,446
GROSS PROFIT	145,281	427,356
OPERATING EXPENSES		
Selling, general and administrative	1,838,740	1,311,501
Research and development	1,994,797	1,193,611
Impairment loss on intangible asset	585,000	-
Depreciation and amortization	541,278	759,935
Total Operating Expenses	4,959,815	3,265,047
OPERATING LOSS	(4,814,534)	(2,837,691)
OTHER INCOME (EXPENSES)		
Interest expense, related party	(198,999)	(70,885)
Loss on stock settlement obligation	-	(717,908)
Other, net	40,180	(60,853)
LOSS BEFORE INCOME TAXES	(4,973,353)	(3,687,337)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	$ (4,973,353)	$ (3,687,337)
LOSS PER COMMON SHARE (BASIC AND DILUTED)	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic and Diluted	199,425,481	190,625,664

The accompanying notes are integral part of these financial statements

NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

	Common Shares	Stock Value	Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2005	**187,240,093**	**$ 16,296,550**	**$ 3,539,328**	**$ (13,693,198)**		**$ (31,836)**	**$ 6,110,844**
Stock issued for services	100,000	10,500	-	-	-	-	10,500
Sale of common stock pursuant to subscription agreement	1,666,667	-	(35,647)	-	-	-	(35,647)
Comprehensive loss:							
Net loss	-	-	-	(3,687,337)	($3,687,337)		(3,687,337)
Foreign currency translation adjustment	-	-	-	-	66,361	66,361	66,361
Comprehensive loss					($3,620,976)		
Balance, December 31, 2005	**189,006,760**	**$ 16,307,050**	**$ 3,503,681**	**$ (17,380,535)**		**$ 34,525**	**$ 2,464,721**
Stock issued for services	8,466,666	616,000	-	-	-	-	616,000
Stock and stock options issued for conversion of liabilities	4,500,000	162,000	250,000	-	-	-	412,000
Stock options issued for services	-	-	49,350	-	-	-	49,350
Exercise of stock options	3,500,000	175,000	-	-	-	-	175,000
Comprehensive loss:							

Net loss	-	-	-	(4,973,353)	($4,973,353)		(4,973,353)
Foreign currency translation adjustment	-	-	-	-	(55,380)	(55,380)	(55,380)
Comprehensive loss					($5,028,733)		
Balance, December 31, 2006	**205,473,426**	**$ 17,260,050**	**$ 3,803,031**	**$ (22,353,888)**		**$ (20,855)**	**$ (1,311,662)**
-			-	-		-	-

The accompanying notes are integral part of these financial statements

NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2006	Year ended December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,973,353)	$ (3,687,337)
Adjustments to reconcile net loss to cash		
flows from operating activities:		
Depreciation and amortization	541,278	759,935
Impairment loss on intangible asset	585,000	-
Loss on disposition of fixed assets	18,330	1,855
Loss on settlement of stock obligation	-	717,908
Loss on stock issued for conversion of liabilities	40,500	
Charges for common stock and options issued for services	665,350	10,500
Interest expense accrued for related party loan	198,999	67,372
Net (increase) decrease in assets:		
Accounts receivable	2,575	112
Inventory	50,928	(46,709)
Other assets	39,660	26,551
Net increase (decrease) in liabilities:		
Accounts payable	94,733	(331,559)
Accrued compensation	120,827	412,047
Accrued expenses	50,648	(308,987)
Deferred revenue	(20,357)	13,002
Total adjustments	2,388,471	1,322,027
Net cash flows from operating activities	(2,584,882)	(2,365,310)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(12,759)	(40,632)
Payment of security deposit	(2,731)	-
Net cash flows from investing activities	(15,490)	(40,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock		
pursuant to subscription agreements	-	200,000
Stock issuance costs	-	(35,647)
Proceeds from stockholder loans	2,740,019	2,173,293
Proceeds from notes payable	2,601	11,842
Payment of notes payable	(53,675)	(23,378)
Net cash flows from financing activities	2,688,945	2,326,110
Effect of exchange rate changes	(58,043)	70,899
Net change in cash	30,530	(8,933)
Cash balance, beginning of year	8,975	17,908
Cash balance, end of year	$ 39,505	$ 8,975

Supplemental disclosures of cash flow information:		
Cash paid for interest	$ -	$ 3,513
Supplemental schedule of non-cash investing and financing activities:		
Common stock and options issued in exchange for current liabilities	$ 412,000	$ -
Options exercised for reduction in accrued compensation	$ 175,000	$ -
Property and equipment exchanged for reduction in related party loans	$ 6,546	$ -

The accompanying notes are integral part of these financial statements

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. Nature of operations and summary of significant accounting policies

Nature of business

Nanobac Pharmaceuticals, Incorporated and subsidiaries, ("Nanobac", the "Company", or "NNBP") trades under the symbol "NNBP."

Nanobac's primary business is the study and development of therapeutic and diagnostic technologies related to nanobacterium sanguineum ("Nanobacteria"). Nanobacteria are believed to be small, slowly growing nano-particles that can be found in human blood, kidney stones and arterial wall plaques.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Nanobac Sciences LLC, Nanobac OY and Nanobac Research Institute LLC. All material intercompany transactions and balances have been eliminated in consolidation.

Liquidity and management plans

The accompanying consolidated financial statements have been prepared assuming that NNBP will continue as a going concern. The Company has incurred recurring losses and has a working capital deficiency at December 31, 2006. The Company is dependent on the continued financing from outside investors including additional stockholder loans. All of these matters raise substantial doubt about the ability of the Company to continue as a going concern. Management believes that NNBP will need to raise additional capital in order to launch new clinical trials, fund research and development for new treatment areas, and general working capital requirements. Capital may be raised through further sales of equity securities, which may result in dilution of the position of current stockholders. At this time, there are no firm commitments to invest in NNBP.

There can be no assurances that NNBP will be successful in obtaining debt or equity financing in order to achieve its financial objectives and continue as a going concern. The financial statements do not include any adjustments to the carrying amount of assets and the amounts and classifications of liabilities that might result from the outcome of this uncertainty.

Revenue recognition

Revenue is recognized when the Company's products are shipped and title has passed or when diagnostic results are provided to the customer. Revenue from the Company's observation rights' agreement is being recognized over the agreement's 12-month term using the straight-line method. Revenue is recorded net of allowances for estimated discounts and incentives.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined in a manner which approximates the first-in, first-out (FIFO) method. Inventory consists of raw materials for currently marketed products and materials and processing costs for antibodies and antigens used in our Finland laboratory. Inventory is shown net of applicable allowances. Shipping costs are expensed as incurred and are included in cost of revenue.

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NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. Nature of operations and summary of significant accounting policies (continued)

Furniture and equipment

Furniture and equipment consist of furniture, fixtures, computers and lab equipment and are recorded at cost. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of three to seven years.

Intangible assets and goodwill

Intangible assets are recorded at cost, less accumulated amortization. Intangible assets consist of patents, product rights and goodwill obtained in the acquisition of NanobacLabs Pharmaceuticals, Inc. and Nanobac OY. Amortization of intangible assets is provided over the following estimated useful lives on a straight-line basis:

Patents 12 years
Product rights 5 years (fully impaired and written off in 2006)

Impairment of long-lived assets and intangible assets

In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”), and Statement of Financial Accounting Standards, No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”), the Company reviews its non-amortizable goodwill for impairment annually, or sooner whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Other depreciable or amortizable assets are reviewed when indications of impairment exist. Upon such an occurrence, recoverability of these assets is determined as follows. For long-lived assets that are held for use, the Company compares the forecasted undiscounted net cash flows to the carrying amount. If it is determined that the long-lived asset will be unable to recover its carrying amount, then it is written down to fair value. For long-lived assets held for sale, assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values from management’s estimates, depending upon the nature or the assets.

Impairment of goodwill is tested using a two step method. The first step is to compare the fair value of the reporting unit to which the goodwill relates (the Company’s enterprise value) to its book value, including goodwill. If the fair value of the reporting unit is less than its book value, the Company then determines the implied fair value of goodwill by deducting the fair value of the reporting unit’s net assets from the fair value of the reporting unit. If the book value of goodwill is greater than its implied fair value, the Company writes down goodwill to its implied fair value. There were no goodwill impairment adjustments recorded in 2006 or 2005. As described in Note 7, during the year ended December 31, 2006, the Company’s Product Rights intangible asset was deemed fully impaired based on the Company terminating the marketing and sales of dietary supplements and therefore the asset is not expected to be recoverable from the use or eventual disposition of the asset.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. Nature of operations and summary of significant accounting policies (continued)

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 the reported amounts of assets and liabilities and disclosures 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.

Loss per share

Loss per share represents net loss divided by the weighted average number of common shares outstanding during the period. The effect of incremental shares from common stock equivalents (options and warrants - see Note 9) is not included in the calculation of net loss per share as the inclusion of such common stock equivalents would be anti-dilutive. Accordingly, fully dilutive shares outstanding equal basic shares outstanding as of December 31, 2006 and 2005.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments related to our Finland operations. Accumulated other comprehensive income (loss) has no applicable income tax.

Financial Instruments

The Company accounts, classifies and measures certain financial instruments with characteristics of both liabilities and equity in accordance with Financial Accounting Standards Board Statement No. 150, “Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity” (“FAS 150”). Pursuant to FAS 150, a financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception requires the issuer to classify the financial instrument as a liability. Further, the liability is to be measured initially and subsequently at the fair value that the financial instrument obligates the issuer to convey to the holder at the settlement date. The shares issued in connection with the 2005 and 2004 Subscription Agreement transactions discussed in Note 9 are stock settlement obligations and, as such, have been presented in the accompanying consolidated balance sheet as a liability and in the accompanying 2005 statement of operations as a loss on the stock settlement obligation.

The carrying value of NNBP’s financial instruments, including cash, accounts receivable, accounts payable, short-term note payable and stockholder loans approximate their fair market values.

Research and development expenses

Research and development expenses are comprised of the following types of costs incurred in performing R&D activities: salaries and benefits, occupancy costs of our Finland laboratory, professional fees, clinical trial and related clinical manufacturing costs. Research and development costs are expensed as incurred.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. Nature of operations and summary of significant accounting policies (continued)

Income taxes

NNBP records its federal and state tax liability in accordance with Financial Accounting Standards Board Statement No. 109 “Accounting for Income Taxes”. The deferred taxes are recorded for temporary differences between the recognition of income and expenses for tax and financial reporting purposes, using current tax rates. Deferred assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Recent accounting pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) announced a new interpretation, FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which will be effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management has determined that the impact on the Company’s financial statements is less than $10,000.

In September 2006, the FASB issued Statement of Financial Accounting Standards No.157 “Fair Value Measurements” (SFAS 157”), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, established a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the potential impact of SFAS 157 on the consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which includes an amendment to FASB Statement No. 115. The statement permits entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value (referred to as the “fair value option”) and report associated unrealized gains and losses in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2006, the Company has not determined the effect that the fair value option, if elected, will have on the consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements," which requires registrants to consider the effect of all carryover and reversing effects or prior year misstatements when quantifying errors in current year financial statements. The cumulative effective of initial application is to be reported in the carrying amount of assets and liabilities as of the beginning of the fiscal year, and the offsetting is to be made to the opening balance of retained earnings for that year. The provisions of SAB 108 are effective for the Company's fiscal year ending September 30, 2007. The Company is in the process of evaluating the requirements of SAB 108 and has not yet determined the impact, if any, on its consolidated financial statements.

Stock Options

In January 2006, the Company adopted the accounting provisions of Statement of Financial Accounting Standards No. 123R, "Share-based Payments" ("SFAS 123 R"), replacing "Accounting for Stock-based Compensation" ("SFAS 123"), which are similar and require the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (warrants and options). The adoption of this standard had no significant impact on the Company's results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Furniture and equipment

Furniture and equipment at December 31, 2006 is summarized as follows:

Computer equipment	$ 21,991
Computer software	17,982
Lab equipment	98,547
Office equipment	16,624
Furniture and fixtures	10,711
	165,855
Accumulated Depreciation	(105,534)
	$ 60,321

Depreciation expense for the years ended December 31, 2006 and 2005 was $36,858 and $53,015, respectively.

3. Goodwill and Other Intangible Assets

Goodwill relates to the 2003 acquisition of Nanobac Sciences, LLC (formerly known as NanobacLabs, LLC) and the 2004 acquisition of Nanobac OY.

Other intangible assets as of December 31, 2006 are summarized as follows:

Patents	$ 5,243,042
Less accumulated amortization	(1,279,041)
	$ 3,964,001

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

Amortization expense for the years ended December 31, 2006 and 2005 was $504,420 and $706,920, respectively. Expected future amortization is summarized as follows:

Year ending December 31,	
2007	$ 436,920
2008	436,920
2009	436,920
2010	436,920
2011	436,920
Thereafter	1,779,401
	$ 3,964,001

Recoverability of the Company's intangibles is dependent upon the successful development and commercialization of its technologies related to nanobacteria. While management believes there is a significant market for products to which these technologies can be applied, substantial additional financing will be required in order to successfully develop the technology. Should required funding not be available at acceptable terms, if at all, then future impairment charges may result with regard to the Company's intangible assets.

4. Geographic Information

The Company operates in a single business segment. Geographic information is summarized as follows:

	Year ended December 31, 2006	2005
Revenue		
United States	$ 204,272	$ 608,445
Finland	20,814	48,357
	$ 225,086	$ 656,802
Assets		
United States	$ 7,500,543	
Finland	324,178	
	$ 7,824,721	

The geographic classification of revenue was based upon the domicile of the entity from which the revenue was earned.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

5. Income taxes

There was no current or deferred provision or benefit for income taxes for the years ended December 31, 2006 and 2005. The components of deferred tax asset as of December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax asset:	$ 5,910,000	$ 4,333,000
Net operating loss carryforwards	413,000	242,000
Accrued expenses		
Valuation allowance	(6,323,000)	(4,575,000)
Deferred tax asset net of valuation allowance	$ -	$ -

As of December 31, 2006, the Company had approximately $15 million of net operating loss carryforwards which expire between 2016 and 2026.

The following table accounts for the differences between the actual tax provision and the amounts obtained by applying the statutory U.S. federal income tax rates of 34% to the loss before income taxes:

	2006	2005
Statutory tax benefit	$ 1,721,000	$ 2,981,000
State taxes, net of federal benefit	224,000	335,000
Nondeductible expense for common		
stock issued for services		(999,000)
Amortization of intangible assets	(197,000)	(261,000)
-		
Discontinued operations	-	305,000
Nontaxable derivative loss	-	(251,000)
Increase in valuation allowance	(1,748,000)	(2,116,000)
Other, net	-	6,000
	$ 0	$ 0

Changes in the valuation allowance during the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Valuation allowance, beginning of year	$ 4,575,000	$ 2,459,000
Increase from continuing operations	$ 1,748,000	2,116,000
Valuation allowance, end of year	$ 6,323,000	$ 4,575,000

As a result of the implementation of FIN 48, the Company expects to recognize a $6,000 decrease in the deferred tax asset related to net operating loss. As this loss was wholly offset by the Company's valuation adjustment, no impact is anticipated on retained earnings as of January 1, 2007 from the adoption of this standard.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

6. Related party transactions

An entity controlled by the Chief Executive Officer (who is also the largest stockholder of NNBP), has loaned NNBP approximately $5.4 million as of December 31, 2006. This loan bears interest at 5% and is due on demand. Interest expense for the above loan for the years ended December 31, 2006 and 2005 was approximately $200,000 and $67,000, respectively.

See Note 9 regarding related party subscriptions agreement and stock settlement liability.

7. Discontinuance of product line

During March 2006, the Company's management established a plan for Nanobac to discontinue the sale of dietary supplements and the Company's focus to be exclusively on the science that is expected to ultimately lead to drug discovery and the development of diagnostic products. Effective March 30, 2006, the Company assigned the dietary supplement product rights to an entity owned by the primary stockholder for no compensation. As a result of the above decision, a charge to earnings of $585,000 for the impairment of the product rights intangible asset (the net book value of the then unamortized product rights) has been recognized in operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2006. No other assets or liabilities were conveyed in connection with this transaction.

8. Abandonment of lease

During March 2006, the Company ceased occupying leased office space in Tampa, Florida. As a result of the early abandonment of this office lease, a charge to earnings of approximately $125,000 for the write-off of leasehold improvements and the acceleration of lease payments associated with the abandoned lease has been recognized in operating expenses and other expenses in the accompanying condensed consolidated statement of operations for the year ended December 31, 2006.

9. Stockholders' equity

Preferred stock

The holder(s) of preferred shares are entitled to receive non-cumulative dividends not to exceed $.10 per share when and as declared by the Board of Directors. In the event of any liquidation, dissolution or winding down of the company, either voluntary or involuntary, the holder(s) of each preferred share shall be entitled to be paid on an amount equal to $4.00 per share. In the event that the Company authorizes the redemption of all or any preferred shares, the redemption price shall be $4.30 per share. The preferred shares are convertible at any time into common at the ratio of 44.11 common shares to one preferred share. Holders of preferred shares have a right to cast eight votes per preferred share and the right to elect 50% of the authorized members of the board of directors. As of and for the years ended December 31, 2006 and 2005, there were no preferred shares issued or outstanding.

Common stock, preferred stock and warrant issuances

From August 2004 through February 2005, the Company entered into Subscription Agreements with three unaffiliated investors. Under the terms of the Subscription Agreements, the Company received cash of $852,500 (net of $122,500 of expenses) through December 31, 2005. The Company is to receive additional cash of approximately $800,000 (net of expenses) within five

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9. Stockholders' equity (continued)

days of registering the common shares and warrants issued as a result of the Subscription Agreements. The number of common shares to be issued is equal to the amount received divided by the lesser of $.12 or 52% of the average closing bid price of the Company's common stock on the five trading days immediately prior to the date on which the registration statement is declared effective ("Fixed Price"). In addition, the Subscription Agreements provide for the issuance of warrants equal to the number of common shares issued. Fifty percent (50%) of the warrants are exercisable at 110% of the Fixed Price and the remaining 50% of the warrants are exercisable at 150% of the Fixed Price. Unexercised warrants will expire December 31, 2008. The Company had agreed to use its best efforts to promptly register the common shares and warrants.

During December 2004, the Company entered into a Subscription Agreement with an affiliate of the Company's Chief Executive Officer ("CEO Affiliate"). Under the terms of the Subscription Agreement, the Company received cash of $500,000 during the year ended December 31, 2004. The Company is to receive additional cash of $500,000 within five days of registering the common shares and warrants issued as a result of the Subscription Agreement. All other terms of the Subscription Agreement are substantially the same as the Subscription Agreements to the unaffiliated investors described in the preceding paragraph.

As a result of the above Subscription Agreements, at December 31, 2006, the Company has issued 12,291,667 shares of common shares, which represents the minimum number of shares to be issued under the Subscription Agreements in exchange for cash received through December 31, 2006. If the price of the Company's stock is less than $0.23 per share when the Company's registration statement is declared effective, the Company will be required to issue additional shares under the above Subscription Agreements equal to a price of 52% of the average closing bid price of the Company's common stock on the five trading days immediately prior to the date on which the registration statement is declared effective. As of December 31, 2006, the registration statement had not been declared effective.

The ultimate number of shares to be issued is indeterminate as the number of shares is dependent on NNBP's closing bid price when a registration statement is declared effective. As a result, the $1,500,000 of cash received under the Subscription Agreements through December 31, 2006 is included in Stock Settlement Liability. In addition, the Company measured the value of the variable number of shares to be issued under the Subscription Agreements at the fair value that the financial instrument obligates the Company to convey to the holder at the settlement date. As a result of this measurement, an additional $1,336,538 million is included in Stock Settlement Liability at December 31, 2006 (of which approximately $718,000 relates to the year ended December 31, 2005) $961,538 of this liability is due to the CEO Affiliate at December 31, 2006 and the balance is due to the unaffiliated investors.

In May 2006, the Company entered into an agreement with Redwood Consultants, LLC ("Redwood") whereby Redwood provided the Company with investor communications and public relations services. Under the terms of the agreement, the Company issued 8,000,000 shares of the Company's common stock valued at $560,000, which was recorded as a charge in the statement of operations during the year ended December 31, 2006 as the issuance was not revocable by the Company. The agreement remains in effect through May 8, 2007.

In July 2006, the Company entered into an agreement with Wall Street Resources, Inc. ("Wall Street") whereby Wall Street provided the Company with written analytical coverage and reports and advised and assisted the Company in developing and implementing a business plan, strategy

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9 Stockholders' equity (continued)

and objectives to present to the financial community. The agreement requires the Company to issue 466,666 shares of the Company's common stock valued at $56,000 and pay $15,000 cash to Wall Street upon the issuance of Wall Street's initial report, which was dated September 12, 2006. The agreement expired March 11, 2007.

Stock Options

Effective July 2006 and November 2006, the Company amended the employment agreements for two employees to settle $225,000 of bonuses that were due to these employees through the issuance of 4,250,000 stock options with an exercise price of $0.05 per common share, with immediate vesting. 3,500,000 of these stock options were exercised in December 2006. No proceeds were received by the Company for the exercise price as the Company granted additional compensation to the option holder equal to the exercise price. In accordance with SFAS No. 123(R), these grants were valued at approximately $300,000 using the Black-Scholes valuation model and assuming a risk-free interest rate of 5.00% and 5.25%, volatility of 100% and an expected term of 60 months. The stock option grants were approved by a corporate officer who has been provided this authority by the Board of Directors. At December 31, 2006, the Company did not have a formal stock option plan for the above stock option issuances. The following table summarizes stock option activity for the year ended December 31, 2006:

Outstanding at December 31, 2005	-
Granted	4,250,000
Exercised	(3,500,000)
Outstanding at December 31, 2006	750,000

The following table summarizes information about stock options outstanding at December 31, 2006:

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable	Intrinsic value
$ 0.05	750,000	9.7	750,000	$52,500

No stock options were outstanding for the year ended December 31, 2005.

Warrants

As of December 31, 2006, 5,000,000 warrants were outstanding and exercisable with an exercise price of $.005 per common share and an expiration date of August 31, 2009.

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10. Commitments

The Company leases administrative and laboratory facilities and office equipment under cancelable and non-cancelable operating leases that expire through June 2010. The following table summarizes the minimum future rental commitments under non-cancelable operating leases at December 31, 2006:

Year ending December 31,	
2007	134,618
2008	63,485
2009	59,290
2010	29,957
	$ 287,350

Rent expense on operating leases for the years ended December 31, 2006 and 2005 was approximately $183,000 and $186,000, respectively.

The Company has entered into employment agreements with two employees which expire in 2009. One of these employment agreements requires the issuance of $225,000 of equity based compensation on an annual basis in addition to base compensation.

11 Contingencies

On August 10, 2004, the Company was served with a civil action as filed in the Superior Court of Fulton County State of Georgia by Foltz Martin LLC and Openbook Learning Club, Inc. (“Foltz”). This suit alleges that the Company is liable for approximately $67,000 of liabilities plus approximately $11,000 interest for services performed by the plaintiffs for HealthCentrics, Inc. in 2003 and 2004. The Company owned 100% of HealthCentrics from December 2003 through March 2004 when HealthCentrics was sold by the Company to an affiliate. A judgment was awarded to Foltz in 2006. A $79,000 liability has been included in the accompanying balance sheet for this matter.

On January 19, 2006, the Company was served with a civil action as filed in the Superior Court of Fulton County State of Georgia by EliteCorp Atlanta, LLC (“EliteCorp”). This suit alleges that the Company is liable for approximately $318,000 of liabilities plus approximately $110,000 interest for services performed by the plaintiffs for HealthCentrics, Inc. in 2003 and 2004. The Company responded to this action on February 17, 2006 and denied virtually all the allegations of EliteCorp. The Company’s management believes that Nanobac is not responsible for the liabilities of HealthCentrics and that the Company will ultimately prevail in this legal action. No liability has been included in the accompanying balance sheet for this matter.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
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12 Subsequent Events

On January 29, 2007, the Company issued 12,000,000 shares of the Company's common stock valued at $1.6 million to the individual members of the Board of Directors for services. On January 29, 2007, 30,000,000 shares with a value of $4.7 million were issued to an affiliate of the Company's CEO in exchange for the reduction of the related party loans of $4.7 million. This conversion will be treated as a capital transaction.

During January 2007, the Company, along with the Company's CEO and a Board of Director member was served with civil action in the Circuit Court of Cook County, Illinois by Nutmeg Group LLC, the sole unaffiliated holder of subscription agreements described in Note 9. The suit is seeking damages for alleged breaches of contract by the Company and the affiliates as a result of the alleged failure to deliver stock and warrants that were allegedly due to be delivered under certain subscription agreements between the parties. The Company has filed a motion to quash summons, contending there is no jurisdiction in Illinois for this matter. The amount of damages, if any, that will be payable under this legal action is currently unknown and, as such, no liability has been recorded in the financial statements.

During January 2007, the CEO Affiliate agreed to acquire the rights and obligations under the Stock Subscription Agreements (see Note 9) from two of the three unaffiliated investors except for common stock previously issued to these investors and 2.7 million of the warrants. As of May 3, 2007, this transaction has not closed.

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13 Quarterly Data (unaudited)

	Mar 31	Jun 30	Sep 30	Dec 31
2006 Quarter ended				
Revenue	$ 161,286	$ 37,565	$ 23,894	$ 2,341
Gross profit	$ 116,091	$ 14,942	$ 12,608	$ 1,640
Net loss	$ (1,487,687)	$ (1,395,460)	$ (787,183)	$ (1,303,023)
Loss per share:				
Basic and Diluted	($0.01)	$ 0.00	$ 0.00	($0.01)
2005 Quarter ended				
Revenue	$ 151,865	$ 167,988	$ 130,394	$ 206,555
Gross profit	$ 108,027	$ 109,527	$ 83,309	$ 126,493
Net loss	$ (1,505,921)	$ (984,153)	$ (645,547)	$ (551,716)
Loss per share:				
Basic and Diluted	($0.01)	($0.01)	$ 0.00	$ 0.00

Reconciliation of 2006 Quarterly Data to Forms 10-QSB as filed

	Mar 31	Jun 30	Sep 30
Net loss			
Net loss as reported on Form 10Q	$ (1,487,687)	$ (835,460)	$ (787,183)
Common stock issued for investor relation services		(560,000)	
Net loss per above	$ (1,487,687)	$ (1,395,460)	$ (787,183)

During May 2006, the Company issued 8,000,000 shares to an outside consultant valued at $560,000. This transaction was not reported on Form 10-QSB for the six months ended June 30, 2006. The Company has revised its procedures to request all stock transactions from the transfer agent prior to releasing future filings.