

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

**FORM 10-Q/ A
(Amendment No. 2)**

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

For the quarterly period ended **March 31, 2009**

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

For the transition period from _____ to _____.

KRAIG BIOCRAFT LABORATORIES, INC.

(Exact name of registrant as specified in Charter)

Wyoming

333-146316

83-0459707

(State or other jurisdiction of
incorporation or organization)

(Commission File No.)

(IRS Employee Identification No.)

**120 N. Washington Square, Suite 805,
Lansing, Michigan 48933**

(Address of Principal Executive Offices)

(517) 336-0807

(Issuer Telephone number)

(Former Name or Former Address if Changed Since Last Report)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Yes No

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 20, 2009: 501,748,500 shares of Common Stock.

KRAIG BIOCRAFT LABORATORIES, INC.**FORM 10-Q /A****March 31, 2009****INDEX****PART I-- FINANCIAL INFORMATION**

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SIGNATURE**Explanatory Note:**

Kraig Biocraft Laboratories, Inc. (the "Company") is filing this Amendment No. 2 to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 to restate the financials. This Amendment No. 2 supersedes the changes set forth in Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed on May 11, 2010.

We are amending the following items:

Part I	Financial Statements and Supplementary Data
Part I Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations
Part I Item 4T	Control and Procedures

Specifically the Company has amended the financial statements and supplementary data in the Form 10-Q to properly account for the embedded derivative liability associated with our CEO's employment agreement. For the convenience of the reader, the Company is re-filing its Form 10-Q originally filed on May 20, 2009 (the "Original Filing") in its entirety in this Amendment No. 2 on Form 10-Q/A. This Amendment No. 2 on Form 10-Q/A continues to speak as of the date of the Original Filing and other than with respect to items described above does not reflect events occurring after the filing of the Original Filing. Accordingly, in conjunction with reading this amendment to the Original Filing, you should also read all other filings we have made with the Securities and Exchange Commission since May 20, 2009.

Item 1. Financial Information**Kraig Biocraft Laboratories, Inc.
(A DEVELOPMENT STAGE COMPANY)****CONTENTS**

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Kraig Biocraft Laboratories, Inc.
(A Development Stage Company)
Condensed Balance Sheets

ASSETS

	March 31, 2009	December 31, 2008
	(Unaudited)	(Restated)
	(Restated)	(Restated)
Current Assets		
Cash	\$ 1,387	\$ 9,537
Prepaid Expenses	603	3,123
Total Assets	<u>\$ 1,990</u>	<u>\$ 12,660</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Accounts payable	\$ 75,271	\$ 65,750
Payroll Tax Payable - related party	21,148	16,933
Royalty agreement payable - related party	120,000	120,000
Derivative Liability – related party	5,502,764	1,361,052
Accrued Expenses - related party	411,307	348,278
Total Liabilities	<u>6,130,490</u>	<u>1,912,013</u>
Commitments and Contingencies	-	-
Stockholders' Deficit		
Preferred stock, no par value; unlimited shares authorized, none issued and outstanding	-	-
Common stock Class A, no par value; unlimited shares authorized, 499,348,500 and 499,348,500 shares issued and outstanding, respectively	779,050	779,050
Common stock Class B, no par value; unlimited shares authorized, no shares issued and outstanding	-	-
Common Stock Issuable, 400,000 shares	4,000	4,000
Additional paid-in capital	42,060	42,060
Deficit accumulated during the development stage	(6,953,610)	(2,724,463)
Total Stockholders' Deficit	<u>(6,128,500)</u>	<u>(1,899,353)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 1,990</u>	<u>\$ 12,660</u>

See accompanying notes to condensed unaudited financial statements

Kraig Biocraft Laboratories, Inc.
(A Development Stage Company)
Condensed Statements of Operations
(Unaudited)

	For the Three Months Ended		For the Period from April 25, 2006 (Inception) to March 31, 2009
	March 31,	March 31,	to March 31, 2009
	<u>2009</u>	<u>2008</u>	<u>(Restated)</u>
	(Restated)		(Restated)
Revenue	\$ -	\$ -	\$ -
Operating Expenses			
General and Administrative	11,247	24,891	133,950
Professional Fees	3,000	15,628	83,825
Officer's Salary	55,085	51,967	708,819
Contract Settlement	-	-	107,143
Payroll Taxes	4,214	3,975	22,978
Research and Development	5,945	15,925	380,954
Total Operating Expenses	<u>79,491</u>	<u>112,386</u>	<u>1,437,669</u>
Loss from Operations	(79,491)	(112,386)	(1,437,669)
Other Income/(Expenses)			
Other income	-	2,781	2,781
Interest expense	(7,944)	-	(15,958)
Change in fair value of embedded derivative liability	(4,141,712)	-	(5,502,764)
Total Other Income/(Expenses)	<u>(4,149,656)</u>	<u>2,781</u>	<u>(5,515,941)</u>
Net Loss before Provision for Income Taxes	<u>(4,229,147)</u>	<u>(109,605)</u>	<u>(6,953,610)</u>
Provision for Income Taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (4,229,147)</u>	<u>\$ (109,605)</u>	<u>\$ (6,953,610)</u>
Net Loss Per Share - Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	
Weighted average number of shares outstanding during the year/period - Basic and Diluted	<u>449,748,500</u>	<u>449,702,442</u>	

See accompanying notes to condensed unaudited financial statements

Kraig Biocraft Laboratories, Inc.
(A Development Stage Company)
Condensed Statement of Changes in Stockholders Deficit
For the period from April 25, 2006 (inception) to March 31, 2009
(Unaudited) (RESTATED)

	Preferred Stock		Common Stock		Common Stock		Common Stock - Class A Shares			Deficit Accumulated during	
	Shares	Par	Class A Shares	Par	Class B Shares	Par	To be issued Shares	Par	APIC	Development Stage	Total
Balance, April 25, 2006	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Stock issued to founder	-	-	332,292,000	180	-	-	-	-	-	-	180
Stock issued for services (\$..01/share)	-	-	17,500,000	140,000	-	-	-	-	-	-	140,000
Stock issued for services (\$.01/share)	-	-	700,000	5,600	-	-	-	-	-	-	5,600
Stock contributed by shareholder	-	-	(11,666,500)	-	-	-	-	-	-	-	-
Stock issued for cash (\$.05/share)	-	-	4,000	200	-	-	-	-	-	-	200
Stock issued for cash (\$.05/share)	-	-	4,000	200	-	-	-	-	-	-	200
Fair value of warrants issued	-	-	-	-	-	-	-	-	126,435	-	126,435
Net Loss	-	-	-	-	-	-	-	-	-	(530,321)	(530,321)
Balance, December 31, 2006	-	-	338,833,500	146,180	-	-	-	-	126,435	(530,321)	(257,706)
Stock issued for cash (\$.01/share)	-	-	1,750,000	15,000	-	-	-	-	-	-	15,000
Stock issued	-	-	12,000,000	103,000	-	-	-	-	-	-	103,000

the year
ended
December 31,
2007

Balance, December 31, 2007	-	-	499,348,500	779,050	-	-	-	-	42,060	(1,003,307)	(182,197)
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Stock issuable for services (\$01/share)	-	-	-	-	-	-	400,000	4,000	-	-	4,000
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Net loss, for the year ended December 31, 2008	-	-	-	-	-	-	-	-	-	(1,721,156)	(1,721,156)
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Balance, for the year ended December 31, 2008	-	-	499,348,500	779,050	-	-	400,000	4,000	42,060	(2,724,463)	(1,899,353)
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Net loss for the period ended March 31, 2009	-	-	-	-	-	-	-	-	-	(4,229,147)	(4,229,147)
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Balance, for the period ended March 31, 2009	-	\$ -	499,348,500	\$ 779,050	-	\$ -	400,000	\$ 4,000	\$ 42,060	\$ (6,953,610)	\$(6,128,500)
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See accompanying notes to condensed unaudited financial statements

Kraig Biocraft Laboratories, Inc.
(A Development Stage Company)
Condensed Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,		For the Period from April 25, 2006 (Inception) to March 31, 2009
	2009	2008	2009
	<u>(RESTATED)</u>		<u>(RESTATED)</u>
Cash Flows From Operating Activities:			
Net Loss	\$ (4,229,147)	\$ (109,605)	\$ (6,953,610)
Adjustments to reconcile net loss to net cash used in operations			
Stock issuable for services	-	4,000	171,780
Change in fair value of derivative liability	4,141,712		5,502,764
Warrants issued to employees	-	-	126,435
Changes in operating assets and liabilities:			
(Increase)Decrease in prepaid expenses	2,520	12,050	(603)
Increase in accrued expenses and other payables	67,244	46,189	432,455
Increase in royalty agreement payable - related party	-	-	120,000
Increase in accounts payable	9,521	10,050	75,271
Net Cash Used In Operating Activities	<u>(8,150)</u>	<u>(37,316)</u>	<u>(525,508)</u>
Cash Flows From Financing Activities:			
Proceeds from Notes Payable - Stockholder	-	-	10,000
Repayments of Notes Payable - Stockholder	-	-	(10,000)
Proceeds from issuance of common stock	-	-	526,895
Net Cash Provided by Financing Activities	<u>-</u>	<u>-</u>	<u>526,895</u>
Net Increase (Decrease) in Cash	(8,150)	(37,316)	1,387
Cash at Beginning of Period/Year	<u>9,537</u>	<u>105,818</u>	<u>-</u>
Cash at End of Period/Year	<u>\$ 1,387</u>	<u>\$ 68,502</u>	<u>\$ 1,387</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SUPPLEMENTAL DISCLOSURE OF NON CASH ITEMS

During the period ended December 31, 2006, the principal stockholder contributed 11,666,500 shares of common stock to the Company as an in kind contribution of stock. The shares were retired by the Company.

In accordance with the May 2007 stock purchase agreement which contains an anti-dilution clause which requires the Company to

issue additional common shares under the stock purchase agreement for any subsequent issuance at a price below \$.08 per share for a period of 12 months. The Company has issued 28,125,000 additional shares through September 2007 as a result of the subsequent stock issuances in the amount of \$84,375 (\$0.003/share).

See accompanying notes to condensed unaudited financial statements

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS RESTATED IN NOTE 2
AS OF MARCH 31, 2009
(UNAUDITED)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

(A) Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in The United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

Activities during the development stage include developing the business plan and raising capital.

(B) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(C) Cash

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

(D) Loss Per Share

Basic and diluted net loss per common share is computed based upon the weighted average common shares outstanding as defined by Financial Accounting Standards No. 128, "Earnings per Share." The assumed conversion of debt to common stock of 196,998,629 shares as of March 31, 2009 is not included in the computation of diluted loss per share, as the effect is anti-dilutive. The Company did not have convertible debt outstanding at March 31, 2008.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS RESTATED IN NOTE 2
AS OF MARCH 31, 2009
(UNAUDITED)

(E) Research and Development Costs

The Company expenses all research and development costs as incurred for which there is no alternative future use. These costs also include the expensing of employee compensation and employee stock based compensation.

(F) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(G) Stock-Based Compensation

The Company has adopted the provisions of SFAS No. 123R and related interpretations as provided by SAB 107. As such, compensation cost is measured on the date of grant at their fair value. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

Common stock, stock options and common stock warrants issued to other than employees or directors are recorded on the basis of their fair value, as required by SFAS No. 123(R), which is measured as of the date required by EITF Issue 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." In accordance with EITF 96-18, the stock options or common stock warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying common stock on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes option pricing model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

(H) Business Segments

The Company operates in one segment and therefore segment information is not presented.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS RESTATED IN NOTE 2
AS OF MARCH 31, 2009
(UNAUDITED)

(I) Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on the Company's financial position.

(J) Reclassification

The 2008 financial statements have been reclassified to conform to the 2009 presentation.

(K) Derivative Financial Instruments

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement of their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as derivative financial instruments.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model.

(L) Fair Value Accounting

We measure our financial assets and liabilities in accordance with generally accepted accounting principles. For certain of our financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. Amounts recorded for notes payable, net of discount, also approximate fair value because current interest rates available to us for debt with similar terms and maturities are substantially the same.

Effective January 1, 2008, we adopted fair value accounting guidance for financial assets and liabilities (SFAS 157). The adoption did not have a material impact on our results of operations, financial position or liquidity. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This guidance does not apply to measurements related to share-based payments. This guidance discusses valuation techniques, such as the market approach

(comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1:	Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3:	Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

We currently measure and report at fair value the liability for embedded conversion option derivative instruments. The fair value liabilities for price adjustable embedded conversion options have been recorded as determined utilizing Black-Scholes option pricing model. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

	Balance at March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Fair value of liability for embedded conversion option derivative instruments	\$ 5,502,000	\$ -	\$ -	\$ 5,502,000
Total Financial Liabilities	<u>\$ 5,502,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,502,000</u>

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS RESTATED IN NOTE 2
AS OF MARCH 31, 2009
(UNAUDITED)

NOTE 2 RESTATEMENTS

On May 20, 2010, the Company determined that it had not properly accounted for a derivative liability as required by SFAS 150. As a result of these adjustments, the Company was required to restate its financial statements and amend its 10Q for the period ended March 31, 2009 with an increase in derivative liabilities of \$5,502,764 and an increase in derivative expense of \$4,141,712 and an increase to deficit accumulated during the development stage of \$5,502,764. The Company also determined that it had not properly accounted for a stock dividend effected in the form of a stock split. As a result of these adjustments, the Company was required to restate its financial statements and amend its 10Q for the period ending March 31, 2009 with a decrease in common stock \$8,245,850 and a decrease in deficit accumulated during the development stage of \$8,245,850. The net increase in deficit accumulated during the development stage is \$2,743,086 as of result of these two restatements.

March 31, 2009

	As Previously Reported		Adjustments		As Restated
Derivative Liability	\$	-	\$	5,502,764	\$ 5,502,764
Total Liabilities	\$	627,726	\$	5,502,764	\$ 6,130,490
Common Stock	\$	9,024,900	\$	(8,245,850)	\$ 779,050
Deficit Accumulated during the development stage	\$	(9,696,696)	\$	2,743,086	\$ (6,953,610)
Total Stockholder's Deficit	\$	(625,736)	\$	(5,502,764)	\$ (6,128,500)

For the 3 Months Ended March 31, 2009	For the Period from April 25, 2006 (Inception) to March 31, 2009
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	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated		
Change in fair value of embedded derivative liability	\$	-	\$ (4,141,712)	\$ (4,141,712)	\$	-	\$ (5,502,764)	\$ (5,502,764)
Net Loss before Income Taxes	\$	(87,435)	\$ (4,141,712)	\$ (4,229,147)	\$	(1,450,846)	\$ (5,502,764)	\$ (6,953,610)
Provision for Income Taxes	\$	-	\$	-	\$	-	\$	-
Net Loss	\$	(87,435)	\$ (4,141,712)	\$ (4,229,147)	\$	(1,450,846)	\$ (5,502,764)	\$ (6,953,610)
Net Loss Per Share - Basic and Diluted	\$	-	\$ (0.01)	\$ (0.01)				

NOTE3 **GOING CONCERN**

As reflected in the accompanying unaudited financial statements, the Company is in the development stage, has a working capital deficiency and stockholders deficiency of \$ 6,128,500 and used \$525,508 of cash in operations from inception. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management believes that actions presently being taken to obtain additional funding and implement its strategic plans provide the opportunity for the Company to continue as a going concern.

NOTE4 **STOCKHOLDERS' DEFICIT****(A) Common Stock Issued for Cash**

On April 28, 2006, the Company issued 8,000 shares of common stock for cash of \$400 (\$0.05 per share).

On January 8, 2007 the Company issued 1,750,000 shares of common stock for \$15,000 (\$0.01/share). This agreement was subsequently terminated effective May 23, 2007.

On January 22, 2007 the Company issued 12,000,000 shares of common stock for \$103,000 (\$0.01/share). In addition, 9,000,000 shares were issued for \$3,000 (\$0.0003/share).

On April 4, 2007, the Company issued 1,875,000 shares of common stock for cash of \$15,000 (\$0.01 per share).

On April 20, 2007, the Company issued 1,875,000 shares of common stock for cash of \$15,000 (\$0.01 per share).

On May 18, 2007, the Company issued 13,125,000 shares of common stock for cash of \$105,000 (\$0.01 per share).

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS RESTATED IN NOTE 2
AS OF MARCH 31, 2009
(UNAUDITED)

On August 28, 2007 the Company entered into a stock purchase agreement to issue 80,495,000 shares common stock in the amount of \$241,485 (\$0.003/share).

On August 29, 2007 the Company entered into a stock purchase agreement to issue 200,000 shares common stock in the amount of \$600 (\$0.003/share).

On August 29, 2007 the Company entered into a stock purchase agreement to issue 8,300,000 shares common stock in the amount of \$24,900 (\$0.003/share).

On September 1, 2007 the Company entered into a stock purchase agreement to issue 25,000 shares common stock in the amount of \$75 (\$0.003/share).

On September 5, 2007 the Company entered into a stock purchase agreement to issue 120,000 shares common stock in the amount of \$360 (\$0.003/share).

On September 12, 2007 the Company entered into a stock purchase agreement to issue 1,025,000 shares common stock in the amount of \$3,075 (\$0.003/share).

In accordance with the May 2007 stock purchase agreement which contains an anti-dilution clause which requires the Company to issue additional common shares under the stock purchase agreement for any subsequent issuance at a price below \$.08 per share for a period of 12 months, the Company has issued 28,125,000 additional shares through September 2007 as a result of the subsequent stock issuances at \$0.003/share.

(B) Common Stock Issued for Intellectual Property

On April 26, 2006, the Company issued 332,292,000 shares of common stock to its founder having a fair value of \$180 (\$0.000001/share) in exchange for intellectual property. The fair value of the patent was determined based upon the historical cost of the intellectual property contributed by the founder.

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(C) Common Stock Issued for Services

On May 8, 2006, the Company entered into a license agreement for research and development. Pursuant to the terms of the agreement, the Company issued 17,500,000 of common stock upon execution of the agreement. The Company also received a five-year call option from the license holder to repurchase 7,000,000 common shares at an exercise price of \$150,000 or \$.02 per share. The option gives the Company the right, but not the obligation to repurchase the shares of common stock. The call option expires May 4, 2011. As of March 31, 2009 the value of the stock was \$.03 per share. However, the Company does not have the obligation to repurchase the shares.

On July 1, 2006 the Company entered into a five year consulting agreement for research and development. Pursuant to the terms of the agreement, the Company paid 700,000 shares of common stock upon execution. These shares had a fair value of \$5,600 (\$.01/share) based upon the recent cash offering price. Additionally, 2,000,000 shares of common stock were issued on May 18, 2007 with a fair value of \$16,000 (\$.01/share). As of December 31, 2008 the Company issued 600,000 shares of common stock for consulting services rendered with a fair value of \$6,000 (\$.01/share). On January 15, 2008 the Company authorized the issuance 400,000 shares of common stock for consulting services rendered with a fair value of \$4,000 (\$.01/share).

(D) Cancellation and Retirement of Common Stock

On December 29, 2006, the Company's founder returned 11,666,500 shares of common stock to the Company. These shares were cancelled and retired. Accordingly, the net effect on equity is \$0.

(E) Common Stock Warrants

During 2006, the Company issued 4,200,000 warrants to an officer under his employment agreement. The Company recognized an expense of \$126,435 for the period from inception to December 31, 2006. The Company recorded the fair value of the warrants based on the fair value of each warrant grant estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2006, dividend yield of zero, expected volatility of 183%; risk-free interest rates of 4.98%, expected life of one year. The warrants vested immediately. The options expire between 5 and 9 years from the date of issuance and have an exercise price of between \$.21 and \$.40 per share. During November 2006, the Company and the officer entered into an amendment to the employment agreement whereby all the warrants were retired .

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(F) Amendment to Articles of Incorporation

On February 16, 2009, the Company amended its articles of incorporation to amend the number and class of shares the Company is authorized to issue as follows (See Note 7 (A)):

- Common stock Class A, unlimited number of shares authorized, no par value
- Common stock Class B, unlimited number of shares authorized, no par value
- Preferred stock, unlimited number of shares authorized, no par value

(G) Stock Split Effected in the Form of a Stock Dividend

On March 23, 2009, the Company's Board of Directors declared a nine-for-one stock split to be effected in the form of a stock dividend . The stock dividend will be distributed to all shareholders of record as of April 27, 2009. A total of 449,773,650 shares of common stock were issued. All basic and diluted loss per share and average shares outstanding information has been adjusted to reflect the aforementioned stock dividend.

NOTE 5 COMMITMENTS AND CONTINGENCIES

(A) Employment Agreement

On April 26, 2006, the Company entered into a five-year employment agreement with the Company's Chairman and Chief Executive Officer. The agreement renews annually so that at all times, the term of the agreement is five years. Pursuant to this agreement, the Company will pay an annual base salary of \$185,000 for the period May 1, 2006 through December 31, 2006. Base pay will be increased each January 1st, for the subsequent twelve month periods by six percent. The officer will also be entitled to life, disability, health and dental insurance. In addition, the officer received 700,000 five year warrants at an exercise price of \$.21 per share, 1,500,000 eight year warrants at an exercise price of \$.33 per share and 2,000,000 nine year warrants at an exercise price of \$.40 per share (See Note 3(E)). The warrants fully vested on the date of grant. The agreement also calls for the issuance of warrants and increase in the officer's base compensation upon the Company reaching certain milestones:

1. Upon the Company's successful laboratory development of a new silk fiber composed of one or more proteins that are exogenous to a host, the Company will issue 500,000 eight year warrants at an exercise price of \$.20 per share and raise executive's base salary by 14%.
2. Upon the Company's successful laboratory development of a new silk fiber composed of two or more proteins that are exogenous to a host, the Company will issue 600,000 eight year warrants at an exercise price of \$.18 per share and raise executive's base salary by 15%.

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3. Upon the Company's successful laboratory development of a new silk fiber composed of at least in part of one or more synthetic proteins, the Company will issue 900,000 eight year warrants at an exercise price of \$.18 per share and raise executive's base salary by 18%.
4. Upon the Company's successful laboratory development of a new silk fiber composed of at least in part of one or more proteins that are genetic modifications or induced mutations of a host silk protein, the Company will raise the executive's base salary by 8%.
5. Upon the Company becoming either a registered company or upon its stock trading and the company achieving a market capitalization in excess of \$35 million for over 120 calendar day period, the executive's base salary will increase to \$225,000.
6. Upon the Company becoming either a registered company or upon its stock trading and the company achieving a market capitalization in excess of \$65 million for over 91 calendar day period, the executive's base salary will increase to \$260,000.
7. Upon the Company becoming either a registered company or upon its stock trading and the company achieving a market capitalization in excess of \$100 million for over 91 calendar day period, the executive's base salary will increase to \$290,000.
8. Upon the Company becoming either a registered company or upon its stock trading and the company achieving a market capitalization in excess of \$200 million for over 120 calendar day period, the executive's base salary will increase to \$365,000.
9. Upon the Company becoming either a registered company or upon its stock trading and the company achieving a market capitalization in excess of \$350 million for over 150 calendar day period, the executive's base salary will increase to \$420,000.

On November 6, 2006, the Company entered into an addendum to the employment agreement whereby the officer agreed to retire all stock warrants issued or to be issued under his employment agreement in return for an increase in his severance allowance to \$600,000 or seventy five percent of total salary due under the remaining term of the employment agreement, which ever is greater and a death benefit of \$300,000 or thirty five percent of the total salary due under the remaining term of the employment agreement.

In addition, upon expiration or termination of the employment agreement, the Company agrees to keep the officer employed as a consultant for a period of six years at a rate of \$4,000 per month with annual increases of 3%. The agreement also calls for certain increases based on milestones reached by the company, including:

1. If the company achieves gross sales exceeding \$10 million or net income exceeding \$1 million for any two years within the ten year period after the date of this agreement or a market capitalization in excess of \$45 million for over 180 calendar days within six years from the date of this agreement, the term of the consulting agreement will be extended to 10 years.

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2. If the company achieves gross sales exceeding \$19 million or net income exceeding \$3 million for any two years within the twelve year period after the date of this agreement or a market capitalization in excess of \$65 million for over 180 calendar days within six years from the date of this agreement, the term of the consulting agreement will be extended to 20 years or the life of the officer and his spouse at a rate of \$6,500 per month with a 3% annual increase.
3. If the company achieves gross sales exceeding \$38 million or net income exceeding \$6 million for any two years within the twelve year period after the date of this agreement or a market capitalization in excess of \$120 million for over 180 calendar days within six years from the date of this agreement, the term of the consulting agreement will be extended to 20 years or the life of the officer and his spouse at a rate of \$10,000 per month with a 3% annual increase.
4. If the company achieves gross sales exceeding \$59 million or net income exceeding \$9 million for any year within the twelve year period after the date of this agreement or a market capitalization in excess of \$210 million for over 180 calendar days within six years from the date of this agreement, the term of the consulting agreement will be extended to 20 years or the life of the officer and his spouse at a rate of \$15,000 per month with a 3% annual increase.
5. If the company achieves gross sales exceeding \$78 million or net income exceeding \$12 million for any year within the twelve year period after the date of this agreement or a market capitalization in excess of \$320 million for over 180 calendar days within six years from the date of this agreement, the term of the consulting agreement will be extended to 20 years or the life of the officer and his spouse at a rate of \$20,000 per month with a 3% annual increase.

On October 10, 2008, the Company entered into an addendum to the employment agreement whereby all unpaid back salary will accrue interest at 7% per year. At March 31, 2009, the Company recorded interest expense and related accrued interest payable of \$11, 847 . In addition, the Company granted the CEO the right to convert any accrued salary into Class "A" Common Stock at either 1) The lowest price at which the Company's Class "A" Common Stock has traded over the preceding twelve month period, 2) At the lowest bid price for the preceding thirty days, 3) The lowest price paid in cash for the Class "A" Common Stock during the twelve months preceding the conversion. The conversion price is the lesser of options 1-3 or \$0.02. For all accrued salaries through March 1, 2009 the conversion price for all salary accrued March 1, 2009 to March 31, 2009 is the lessor of options 1-3. As of March 31, 2009, no accrued salary has been converted to Class "A" Common Stock. As of March 31, 2009 the Company owes \$395,348 in accrued salary (See Note 6) and has accrued a derivative liability of \$5,502,764 for the potential benefit of the convertible accrued salary as per SFAS 150 . Per addendum, the lowest stock price to convert the liability was \$.002 for all accrued salary through March 1, 2009. The lowest stock price to convert the liability was \$.007 for accrued salary from March 1, 2009 through March 31, 2009. See table below for a breakdown of the derivative liability.

<u>Date</u>	<u>Accrued Salary</u>	<u>Conversion Rate</u>	<u>Derivative Liability</u>
3/1/2009	\$ 388,718	\$ 0.002	\$ 5,442,055
3/1/2009 - 3/31/2010	\$ 18,477	\$ 0.007	\$ 60,709
Total derivative liability less accrued salary			<u><u>\$ 5,502,764</u></u>

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(B) License Agreement

On May 8, 2006, the Company entered into a license agreement. Pursuant to the terms of the agreement, the Company paid a non-refundable license fee of \$10,000. The Company will pay a license maintenance fee of \$10,000 on the one year anniversary of this agreement and each year thereafter. The Company will pay an annual research fee of \$13,700 with first payment due January 2007, then on each subsequent anniversary of the effective date commencing May 4, 2007. Pursuant to the terms of the agreement the Company may be required to pay additional fees aggregating up to a maximum of \$10,000 a year for patent maintenance and prosecution relating to the licensed intellectual property. As of March 31, 2009, the Company has not made the required payments and has accrued \$28,752 under the agreement (See Note 4 (C))

(C) Royalty and Research Agreements

On May 1, 2008 the Company entered into a five year consulting agreement for research and development. Pursuant to the terms of the agreement, the Company will be required to pay \$1,000 per month, or at the Company's option, the consulting fee may be paid in the form of Company common stock based upon the greater of \$0.05 per share or the average of the closing price of the Company's shares over the five days preceding such stock issuance. As of March 31, 2009 the Company accrued \$11,000 of accounts payable for the services provided.

On December 26, 2006, the Company entered into an addendum to the intellectual property transfer agreement with an officer. In consideration of the Company issuing either 200,000 preferred shares with the following preferences; no dividends and voting rights equal to 100 common shares per share of preferred stock or the payment of \$120,000, the officer agreed to terminate the royalty payments due under the agreement and give title to the exclusive license for the non protective apparel use of the intellectual property to the Company. On the date of the agreement, the Company did not have any preferred stock authorized with the required preferences. In accordance with SFAS 150, the Company determined that the present value of the payment of \$120,000 that was due on December 26, 2007, the one year anniversary of the addendum, should be recorded as an accrued expense until such time as the Company has the ability to assert that it has preferred shares authorized. As of March 31, 2009, the Company has recorded \$120,000 in accrued expenses- related party. On December 21, 2007 the officer extended the due date to July 30, 2008. On May 30, 2008 the officer extended the due date to December 31, 2008. On October 10, 2008, the officer extended the due date to the earlier of (a) March 30, 2010 or (b) upon demand by the officer. Additionally, the accrued expenses are accruing 7% interest per year. At March 31, 2009, the Company recorded interest expense and related accrued interest payable of \$3,958.

On February 1, 2007 the Company entered into a consulting agreement for research and development for period of one year. As of March 31, 2009, all payments under the consulting agreement totaling \$150,000 were fully paid and expensed. In April 2008, this agreement was extended through March 31, 2009 on a cost reimbursement basis. Reimbursements are to be made quarterly and are not to exceed \$35,000.

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On February 26, 2007 the Company entered into a five year consulting agreement for research and development. Pursuant to the terms of the agreement, the Company paid 2,000,000 shares of common stock upon execution. These shares had a fair value of \$16,000 (\$0.01/share) based upon the recent cash offering price. Additionally, the Company will be required to pay \$1,000 per month, or at the Company's option, the consulting fee may be paid in the form of Company common stock based upon the greater of \$0.01 per share or the average of the closing price of the Company's shares over the five days preceding such stock issuance. As of March 31, 2009 the Company issued an additional 1,000,000 shares of common stock for consulting services rendered with a fair value of \$10,000 (\$0.01/share). The agreement also requires the Company to issue up to 4,500,000 additional shares to the consultant upon the consultant reaching certain milestone events. As of March 31, 2009, the consultant has not reached the milestone events and no additional shares are earned.

NOTE 6 RELATED PARTY TRANSACTIONS

On October 6, 2006 the Company received \$10,000 from a principal stockholder. Pursuant to the terms of the loan, the advance bears interest at 12%, is unsecured and matures on May 1, 2007. At March 31, 2009, the Company recorded interest expense and related accrued interest payable of \$776. As of March 31, 2009, the loan principle was repaid.

On December 26, 2006, the Company entered into an addendum to the intellectual property transfer agreement with an officer. In consideration of the Company issuing either 200,000 preferred shares with the following preferences; no dividends and voting rights equal to 100 common shares per share of preferred stock or the payment of \$120,000, the officer agreed to terminate the royalty payments due under the agreement and give title to the exclusive license for the non protective apparel use of the intellectual property to the Company. On the date of the agreement, the Company did not have any preferred stock authorized with the required preferences. In accordance with SFAS 150, the Company determined that the present value of the payment of \$120,000 that was due on December 26, 2007, the one year anniversary of the addendum, should be recorded as an accrued expense until such time as the Company has the ability to assert that it has preferred shares authorized. As of March 31, 2009, the Company has recorded \$120,000 in royalty agreement payable- related party. On December 21, 2007 the officer extended the due date to July 30, 2008. On May 30, 2008 the officer extended the due date to March 31, 2009. On October 10, 2008, the officer extended the due date to the earlier of (a) March 30, 2010 or (b) upon demand by the officer. Additionally, the accrued expenses are accruing 7% interest per year. At March 31, 2009, the Company recorded interest expense and related accrued interest payable of \$3,958 (See Note 5 (C)).

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As of March 31, 2009 the Company owes \$395,348 in accrued salary to principal stockholder. On October 10, 2008, the Company entered into an addendum to the employment agreement whereby all unpaid back salary will accrue interest at 7% per year. At March 31, 2009, the Company recorded interest expense and related accrued interest payable of \$11,847. In addition, the Company granted the CEO the right to convert any accrued salary into Class "A" Common Stock at either 1) The lowest price at which the Company's Class "A" Common Stock has traded over the preceding twelve month period, 2) At the lowest bid price for the preceding thirty days, 3) The lowest price paid in cash for the Class "A" Common Stock during the twelve months preceding the conversion. The conversion price of all salary accrued through March 1, 2009. The conversion price for all salary accrued March 1, 2009 to March 31, 2009 is the is the lessor of options 1-3. As of March 31, 2009, no accrued salary has been converted to Class "A" Common Stock (See Note 5 (A)).

NOTE 7 **SUBSEQUENT EVENT**

(A) Stock Issued for Cash

On April 24, 2009 the Company issued 2,000,000 shares of common stock for \$20,000 (\$0.01/share).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward-Looking Information

Certain statements contained herein, including, without limitation, statements containing the words “believes”, “anticipates”, “expects” and words of similar import, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among others, the following: international, national and local general economic and market conditions; demographic changes; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Given these uncertainties, readers of this prospectus and investors are cautioned not to place undue reliance on such forward-looking statements.

Plan of Operations

During the next twelve months, we expect to take the following steps in connection with the further development of our business and the implementation of our plan of operations:

- » We expect to spend up to \$35,000 per quarter through March 2010 on collaborative research and development of high strength polymers at the University of Notre Dame. We believe that this research is essential to our product development. If our financing will allow, management will give strong consideration to accelerating the pace of spending on research and development within the University of Notre Dame's laboratories. No fees have been accrued under these terms to date.
- » We expect to spend approximately \$13,700 on collaborative research and development of high strength polymers and spider silk protein at the University of Wyoming over the next twelve months. We believe that this research is important to our product development. This level of research spending at the university is also a requirement of our licensing agreement with the university. If our financing will allow, management will give strong consideration to accelerating the pace of spending on research and development within the University of Wyoming's laboratories.
- » We will actively consider pursuing collaborative research opportunities with other university laboratories in the area of high strength polymers. If our financing will allow, management will give strong consideration to increasing the depth of our research to include polymer production technologies that are closely related to our core research
- » We will consider buying an established revenue producing company which is operating in the biotechnology arena, in order to broaden our financial base and increase our research and development capability. We expect to use a combination of stock and cash for any such purchase.
- » We will also actively consider pursuing collaborative research opportunities with university laboratories in areas of research which overlap the company's existing research and development. One such potential area for collaborative research which the company is considering is protein expression platforms. If our financing will allow, management will give strong consideration to increasing the breadth of our research to include protein expression platform technologies.

Limited Operating History

We have not previously demonstrated that we will be able to expand our business through an increased investment in our research and development efforts. We cannot guarantee that the research and development efforts described in this Registration

Statement will be successful. Our business is subject to risks inherent in growing an enterprise, including limited capital resources, risks inherent in the research and development process and possible rejection of our products in development.

If financing is not available on satisfactory terms, we may be unable to continue expanding our operations. Equity financing will result in a dilution to existing shareholders.

Results of Operations for the Quarter ended March 31, 2009.

Revenue for the quarter ended March 31, 2009 was \$0. This compares to \$0 in revenue for the preceding quarter ended March 31, 2008. No sales are anticipated during the next twelve months as the company will remain in the development stage.

Operating expenses for the quarter ended March 31, 2009 were \$79,491. This compares to \$112,386 in expenses during the quarter ended March 31, 2008. Research and development expenses for the quarter ended March 31, 2009 were \$5,945. This compares to \$15,925 spent on research and development during the quarter ended March 31, 2008. In addition, we had the following expenses during the quarter ended March 31, 2009: general and administrative-\$11,247, professional fees-\$3,000, officer's salary-\$55,085 and payroll taxes-\$4,214. This compares to the same expenses during the quarter ended March 31, 2008: general and administrative-\$24,891, professional fees-\$15,628, officer's salary-\$51,967 and payroll taxes-\$3,975.

Total other expense for the quarter ended March 31, 2009 was \$4,149,656. This compares to \$2,781 of total other income in the quarter ended March 31, 2008. The increase in total other expense is primarily due to the change in fair value of embedded derivative liability of \$4,141,712 for the quarter ending March 31, 2009 for the convertible accrued salary owed to the CEO.

Capital Resources and Liquidity

As of March 31, 2009 we had \$1,387 in cash compared to \$9,537 as of December 31, 2008.

We believe we can not satisfy our cash requirements for the next twelve months with our current cash. Completion of our plan of operation is subject to attaining adequate financing. We cannot assure investors that adequate financing will be available. In the absence of such financing, we may be unable to proceed with our plan of operations.

We anticipate that our operational, and general & administrative expenses for the next 12 months will total approximately \$400,000. We do not anticipate the purchase or sale of any significant equipment. We also do not expect any significant additions to the number of employees. The foregoing represents our best estimate of our cash needs based on current planning and business conditions. The exact allocation, purposes and timing of any monies raised in subsequent private financings may vary significantly depending upon the exact amount of funds raised and our progress with the execution of our business plan.

In the event we are not successful in obtaining financing, we may not be able to proceed with our business plan for the research and development of our products. We anticipate that we will incur operating losses in the foreseeable future. Therefore, our auditors have raised substantial doubt about our ability to continue as a going concern.

On March 23, 2009, the Company's Board of Directors declared a nine-for-one stock split to be effected in the form of a stock dividend. The stock dividend was distributed to shareholders of record on April 27, 2009. A total of 449,773,650 shares of common stock were issued. All basic and diluted loss per share and average shares outstanding information has been adjusted to reflect the aforementioned stock dividend.

Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 1 of our financial statements. While all these significant accounting policies impact its financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would

cause effect on our results of operations, financial position or liquidity for the periods presented in this report.

Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on the Company's financial position.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities” (SPEs).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for Smaller Reporting Companies.

Item 4T. Controls and Procedures

a) *Evaluation of Disclosure Controls.* Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) (the Company’s principal financial and accounting officer), of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures are not effective. In particular, the Company failed to properly account for the embedded derivative liability associated with the CEO’s employment agreement in its quarterly and annual reports.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) *Changes in internal control over financial reporting.* In order to rectify our ineffective disclosure controls and procedures, we are developing a plan to ensure that all information will be recorded, processed, summarized and reported accurately, and as of the date of this report, we have taken the following steps to address the above-referenced material weaknesses in our internal control over financial reporting:

1. We will continue to educate our management personnel to comply with the disclosure requirements of Securities Exchange Act of 1934 and Regulation S-K; and
2. We will increase management oversight of accounting and reporting functions in the future.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings.**

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None

Item 5. Other Information.

None

Item 6. Exhibits and Reports of Form 8-K.

(a) Exhibits

31.1 Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002

32.1 Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002

(b) Reports of Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KRAIG BIOCRAFT LABORATORIES, INC.

Date: May 28 , 2010

By: /s/ Kim Thompson
Kim Thompson
Chief Executive Officer