10-Q 1 f10q0310_kraig.htm QUARTERLY REPORT

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

☐ **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 21, 2010: 519,543,719 shares of Class A Common Stock.

KRAIG BIOCRAFT LABORATORIES, INC.

FORM 10-Q
March 31, 2010
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SIGNATURE

Item 1. Financial Information

Kraig Biocraft Laboratories, Inc.
(A DEVELOPMENT STAGE COMPANY)

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

ASSETS

	March 31, 2010 (Unaudited)	December 31, 2009
Current Assets		
Cash	$ 3,620	$ 24,570
Prepaid Expenses	604	3,124
Total Assets	**$ 4,224**	**$ 27,694**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts Payable	$ 109,885	$ 111,871
Loan Payable	6,990	-
Royalty Agreement Payable - Related Party	75,000	85,000
Accrued Expenses - Related Party	715,015	631,576
Derivative Liability – Related Party	2,015,171	2,222,279
Derivative liability	121,872	124,345
Total Current Liabilities	**3,043,933**	**3,175,071**
Long Term Liabilities		
Convertible Note Payable	18,521	27,400
Total Liabilities	**3,062,454**	**3,202,471**
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, 518,689,550 and 502,495,099 shares issued and outstanding, respectively	1,126,050	821,050
Common stock Class B, no par value; unlimited shares authorized, no shares issued and outstanding	-	-
Common Stock Issuable, 1,122,311 and 11,122,311 shares, respectively	22,000	222,000
Additional paid-in capital	42,060	42,060
Deferred Compensation	(8,333)	(103,333)
Deficit accumulated during the development stage	(4,240,007)	(4,156,554)
Total Stockholders' Deficit	**(3,058,230)**	**(3,174,777)**
Total Liabilities and Stockholders' Deficit	**$ 4,224**	**$ 27,694**

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 March 31,		For the Period from April 25, 2006 (Inception) to
	March 31, 2010	2009 (Restated)	March 31, 2010
Revenue	$ -	$ -	$ -
Operating Expenses			
General and Administrative	18,143	15,461	200,390
Public Relations	100,000	-	204,447
Professional Fees	4,977	3,000	128,981
Officer's Salary	58,390	55,085	951,226
Contract Settlement	-	-	107,143
Research and Development	8,242	5,945	453,050
Total Operating Expenses	189,752	79,491	2,045,237
Loss from Operations	(189,752)	(79,491)	(2,045,237)
Other Income/(Expenses)			
Other income	-	-	2,781
Amortization of Debt Discount	(91,121)	-	(118,521)
Change in fair value of embedded derivative liability	209,581	(4,141,712)	(2,017,042)
Interest expense	(12,161)	(7,944)	(61,988)
Total Other Income/(Expenses)	106,299	(4,149,656)	(2,194,770)
Net Loss before Provision for Income Taxes	(83,453)	(4,229,147)	(4,240,007)
Provision for Income Taxes	-	-	-
Net Loss	**$ (83,453)**	**$ (4,229,147)**	**$ (4,240,007)**
Net Loss Per Share - Basic and Diluted	**$ (0.00)**	**$ (0.01)**	
Weighted average number of shares outstanding during the period - Basic and Diluted	**517,071,117**	**499,748,500**	

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, 2010
(Unaudited)

	Preferred Stock		Common Stock - Class A		Common Stock - Class B		Common Stock - Class A Shares To be issued				Deficit Accumulated during Development Stage	
	Shares	Par	Shares	Par	Shares	Par	Shares	Par	APIC	Deffered Compensation		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 ($.01/share)	-	-	1,750,000	15,000	-	-	-	-	-	-	-	15,000
Stock issued for cash ($.01/share)	-	-	12,000,000	103,000	-	-	-	-	-	-	-	103,000
Stock issued for cash ($.0003/share)	-	-	9,000,000	3,000	-	-	-	-	-	-	-	3,000

Stock issued for cash ($.01/share)	-	-	1,875,000	15,000	-	-	-	-	-	-	-	15,000
Stock issued for cash ($.01/share)	-	-	1,875,000	15,000	-	-	-	-	-	-	-	15,000 -
Stock issued for services ($.01/share)	-	-	2,000,000	16,000	-	-	-	-	-	-	-	16,000
Stock issued for cash ($.01/share)	-	-	13,125,000	105,000	-	-	-	-	-	-	-	105,000
Stock issued for cash ($.003/share)	-	-	80,495,000	241,485	-	-	-	-	-	-	-	241,485
Stock issued for cash ($.003/share)	-	-	200,000	600	-	-	-	-	-	-	-	600
Stock issued for cash ($.003/share)	-	-	8,300,000	24,900	-	-	-	-	-	-	-	24,900
Stock issued for cash ($.003/share)	-	-	25,000	75	-	-	-	-	-	-	-	75
Stock issued for cash ($.003/share)	-	-	120,000	360	-	-	-	-	-	-	-	360
Stock issued for cash ($.003/share)	-	-	1,025,000	3,075		-		-	-	-	-	3,075
Stock issued in connection to cash offering	-	-	28,125,000	84,375	-	-	-	-	(84,375)	-	-	-
Stock issued for services ($.01/share)	-	-	600,000	6,000	-	-	-	-	-	-	-	6,000
Net loss, for the year ended December 31, 2007	-	-	-	-	-	-	-	-	-	-	(472,986)	(472,986)
Balance, December 31, 2007	-	-	499,348,500	779,050	-	-	-	-	42,060	-	(1,003,307)	(182,197)
Stock issuable for services ($.01/share)	-	-	-	-	-	-	400,000	4,000	-	-	-	4,000

Net loss, for the year ended December 31, 2008	-	-	-	-	-	-	-	-	-	-	(1,721,156)	(1,721,156)
Balance, December 31, 2008 (Restated)	-	-	499,348,500	779,050	-	-	400,000	4,000	42,060	-	(2,724,463)	(1,899,353)
Stock issued for cash ($.01/share)	-	-	2,500,000	25,000	-	-	-	-	-	-	-	25,000
Stock issued for cash ($.008/share)	-	-	366,599	3,000	-	-	-	-	-	-	-	3,000
Stock issued for services	-	-	280,000	14,000	-	-	722,311	18,000	-	-	-	32,000
Stock issued for services	-	-	-	-	-	-	10,000,000	200,000	-	(103,333)	-	96,667
Net loss for the year ended December 31, 2009	-	-	-	-	-	-	-	-	-	-	(1,432,091)	(1,432,091)
Balance, December 31, 2009 (Restated)	-	-	502,495,099	821,050	-	-	11,122,311	222,000	42,060	(103,333)	(4,156,554)	(3,174,777)
Stock issued for services	-	-	500,000	5,000	-	-	-	-	-	(5,000)	-	-
Stock issued in connection with convertible note conversion		-	5,694,451	100,000	-	-	-	-	-	-	-	100,000
Stock issued			10,000,000	200,000	-	-	(10,000,000)	(200,000)	-	-	-	-
Deferred compensation realized	-	-	-	-	-	-	-	-	-	100,000	-	100,000
Net loss for the three months ended March 31, 2010	-	-	-	-	-	-	-	-	-	-	(83,453)	(83,453)
Balance, March 31, 2010	**-**	**$ -**	**518,689,550**	**$1,126,050**	**-**	**$ -**	**1,122,311**	**$ 22,000**	**$42,060**	**$ (8,333)**	**$ (4,240,007)**	**$(3,058,230)**

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, 2010	For the Three Months Ended March 31, 2009 (Restated)	For the Period from April 25, 2006 (Inception) to March 31, 2010
Cash Flows From Operating Activities:			
Net Loss	$ (83,453)	$ (4,229,147)	$ (4,240,007)
Adjustments to reconcile net loss to net cash used in operations			
Stock issuable for services	-	-	22,000
Change in Fair Value of Derivative Liability	(209,581)	4,141,712	2,017,042
Stock issued for services	5,000	-	186,783
Amortization of debt discount	91,121	-	118,520
Warrants issued to employees	-	-	126,435
Deferred compensation realized	95,000	-	191,666
Changes in operating assets and liabilities:			
(Increase)Decrease in prepaid expenses	2,520	-	(604)
Increase in accrued expenses and other payables - related party	73,421	-	704,997
(Decrease) Increase in royalty agreement payable - related party	(10,000)	67,244	75,000
Increase in accounts payable	8,032	12,041	119,903
Net Cash Used In Operating Activities	**(27,940)**	**(8,150)**	**(678,265)**
Cash Flows From Financing Activities:			
Proceeds from notes payable - Stockholder	-	-	10,000
Repayments of notes payable - Stockholder	-	-	(10,000)
Proceeds from loan payable	6,990	-	6,990
Proceeds from issuance of convertible note	-	-	120,000
Proceeds from issuance of common stock	-	-	554,895
Net Cash Provided by Financing Activities	**6,990**	**-**	**681,885**
Net Increase (Decrease) in Cash	(20,950)	(8,150)	3,620
Cash at Beginning of Period	24,570	9,537	-
Cash at End of Period	**$ 3,620**	**$ 1,387**	**$ 3,620**
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ -	$ -	$ -
Cash paid for taxes	$ -	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities:			
Shares issued in connection with convertible note payable	$ 100,000	**$ -**	$ 100,000
Beneficial conversion feature on convertible notes and related debt discount	$ 120,000	**$ -**	$ 120,000

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 CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010
(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 FASB Accounting Standards Codification No. 260, "Earnings per Share." As of March 31, 2010 and 2009, 6,000,000 and 0 warrants were not included in the computation of income/ (loss) per share and 233,737,728 and 196,998,629 shares issuable upon conversion of notes payable were not included in the computation of income/(loss) per share because their inclusion is anti-dilutive.

(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 FASB Codification Topic 740-10-25 ("ASC 740-10-25"). Under ASC 740-10-25, 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 ASC 740-10-25, 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.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010
(UNAUDITED)

(G) 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.

(H) Stock-Based Compensation

In December 2004, the FASB issued FASB Accounting Standards Codification No. 718, *Compensation – Stock Compensation*. Under FASB Accounting Standards Codification No. 718, companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. 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. The Company applies this statement prospectively.

Equity instruments (“instruments”) issued to other than employees are recorded on the basis of the fair value of the instruments, as required by FASB Accounting Standards Codification No. 718. FASB Accounting Standards Codification No. 505, *Equity Based Payments to Non-Employees* defines the measurement date and recognition period for such instruments. In general, the measurement date is when either a (a) performance commitment, as defined, is reached or (b) the earlier of (i) the non-employee performance is complete or (ii) the instruments are vested. The measured value related to the instruments is recognized over a period based on the facts and circumstances of each particular grant as defined in the FASB Accounting Standards Codification.

(I) Business Segments

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

(J) Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) No. 2009-13, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. The ASU significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. The ASU will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. Early adoption is permitted, provided that the guidance is retroactively applied to the beginning of the year of adoption. The Company does not expect the adoption of ASU No. 2009-13 to have any effect on its financial statements upon its required adoption on January 1, 2011.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010
(UNAUDITED)

(K) Reclassification

The 2009 financial statements have been reclassified to conform to the 2010 presentation.

(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 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 (ASC 820). 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, 2010:

Liabilities	Balance at March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value of liability for embedded conversion option derivative instruments	$ 2,137,043	$	$	$ 2,137,043
Total Financial Liabilities	$ 2,137,043	$ -	$ -	$ 2,137,043

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010
(UNAUDITED)

NOTE 2 GOING CONCERN

As reflected in the accompanying financial statements, the Company is in the development stage, has a working capital deficiency of $3,039,709 and stockholders' deficiency of $3,058,230 and used $678,265 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.

NOTE 3 CONVERTIBLE DEBT, DEBT DISCOUNT AND FAIR VALUE MEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

On July 17, 2009, the Company entered into an agreement with an investor group where the Company will issue up to $120,000 in convertible units. The debentures will be in the face amount of $10,000 each, mature on December 31, 2010, bear interest at the rate of 5% simple interest per annum, payable at maturity or convertible with the principal, and the principal and interest shall be convertible at the option of the holder at a fixed price of $0.018 per share. Each debenture shall have a warrant attached exercisable for the purchase of 500,000 shares of common stock. The warrants shall expire on December 31, 2011, have a cashless exercise provision, and be exercisable at a fixed price of $0.02. The agreement also requires the investment group to purchase up to $1,000,000 of common stock monthly at the lesser of $75,000 or 200% of the average daily volume multiplied by the average of the daily closing prices for the ten days immediately preceding the exercise date. Each investment by the investment group is priced at the lowest closing "bid" price of the common stock during the five days immediately before the investment. The term of the funding shall be the earlier of (a) the drawing down of the entire $1,000,000 or (b) 24 months after the Effective Date, July 17, 2011. In addition, the Company is required to file and maintain an effective registration statement covering the convertible units, cannot issue more than 5% of its common stock outstanding without the investor group's consent and must maintain a contractual relationship with a public relations firm, which is related to the investor group (see Note 5(D)). The Company has issued $120,000 of convertible debt to date.

The $120,000 convertible debt instrument was determined to have a separate derivative liability instrument requiring bifurcation and the computation of fair value. The conversion price per share equals to the lower of the conversion price and the average closing bid price of the common stock during the 20 trading days prior to and including the date on which the conversion notice is delivered to the holder, however, the mandatory Conversion price shall not be less than $0.005. The Company calculated the estimated fair values of the liabilities for warrant derivative instruments and embedded conversion option derivative instruments with the Black-Scholes option pricing model using the share prices of the Company's stock on the dates of valuation and using the following ranges for volatility, expected term and the risk free interest rate at each respective valuation date, no dividend has been assumed for any of the periods:

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010
(UNAUDITED)

Table 1	**Black Scholes Inputs for the Convertible Debt and Derivative Financial Instruments**	
Warrants		
	As of December 31, 2009	**As of March 31, 2010**
Expected Volatility	448.62%	448.62%
Expected Term	2 years	1.75 years
Expected Dividends	0%	0%
Risk Free Interest Rate	1.45%	1.02%

	As of December 31, 2009	**As of March 31, 2010**
Embedded Conversion Options		
Volatility	448.62%	448.62%
Expected Term	1 years	.75 years
Expected Dividends	0%	0%
Risk Free Interest Rate	1.45%	0.41%

The Company calculated the fair values of the liabilities for embedded conversion option derivative instruments with the Black-Scholes option pricing model using the closing price of the Company's common stock, and the ranges for volatility, expected term and risk free interest indicated in Table 1 above. The fair value of the embedded conversion options at the commitment date was $251,919. Of the total, $120,000 was assigned to debt discount and $131,919 was recorded as a derivative expense.

The Company calculated the estimated fair values of the liabilities for warrant derivative instruments at December 31, 2009 and March 31, 2010 with the Black-Scholes option pricing model using the closing price of the Company's common stock, $0.01 and $0.02, respectively, and the ranges for volatility, expected term and risk free interest indicated in Table 1 above. The fair value of the warrant liability at December 31, 2009 was approximately $59,900. Based upon the estimated fair value, the Company decreased the fair value of liability for warrant derivative instruments by approximately $300 which was recorded as other income for the three months ended March 31, 2010.

The Company calculated the estimated fair values of the liabilities for embedded conversion option derivative instruments at December 31, 2009 and March 31, 2010 with the Black-Scholes option pricing model using the closing price of the Company's common stock, $0.01 and $0.02, respectively, and the ranges for volatility, expected term and risk free interest indicated in Table 1 above. Based upon the estimated fair value, the Company decreased the fair value of liability for embedded conversion option derivative instruments by approximately $2,100 which was recorded as other income for the three months ended March 31, 2010.

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Following table summarizes convertible note payable outstanding as of March 31, 2010:

	Conventional Debt	
Conventional debt	$	120,000
Less: debt conversion	$	100,000
Less: debt discount	$	1,479
Conventional debt, net of debt discount	$	18,521

At March 31, 2010, the Company recorded interest expense and related accrued interest payable of $2,466. The Company also recorded $91,121 for the amortization of debt discount in interest expense on the statement of operations. The debt discount is being amortized over the life of the convertible debt.

On February 11, 2010 the Company authorized the issuance of 5,694,451 shares of Common Stock for the exercise price of $0.02/share in exchange for $100,000 in convertible note payable and on April 6, 2010 the Company authorized the issuance of 854,169 shares of Common Stock for the exercise price of $0.02/share in exchange for $15,000 in convertible notes payable (See Note 7).

NOTE 4 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).

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).

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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 May 2008 as a result of the subsequent stock issuances at $0.003/share.

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

On May 22, 2009, the Company issued 500,000 shares of common stock for $5,000 ($0.01/share).

On September 30, 2009, the Company issued 366,599 shares of common stock for $3,000 ($0.01/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.

(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 shares 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, 2010 the value of the stock was $.01 per share. 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 ($0.01/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 ($0.01/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 ($0.01/share). On January 15, 2008 the Company authorized the issuance of 400,000 shares of common stock for consulting services rendered with a fair value of $4,000 ($0.01/share).

On July 1, 2009, the issuance of 280,000 shares was approved by the board of directors as repayment for services previously provided to the Company by a consultant having a fair value of $14,000 ($0.05/share) in accordance with a consulting agreement (See Note 5(C)).

On July 1, 2009, the issuance of 482,825 shares was approved by the board of directors as partial payment for services previously provided to the Company by a consultant in accordance with a consulting agreement. The total amount of issuable shares for the consultant is 1,122,311 shares, which includes 400,000 issuable shares previously approved by the board of directors and 239,486 shares were approved to be issued on November 19, 2009 for a fair value of $18,000 (See Note 5(C)).

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On August 3, 2009, the Company entered into an agreement with a consultant to provide investor relations services. On October 5, 2009 the Company issued 10,000,000 shares with a fair value of $200,000 ($0.02/share) to a consultant for investor relations to be provided over a term of 180 days. The Company started receiving services beginning October 5, 2009. As of March 31, 2010 $196,667 was recorded as an expense and $3,333 was recognized as deferred compensation (See Notes 3 and 5(D)).

On January 15, 2010 the Company issued 500,000 shares with a fair value of $5,000 ($0.01/share) to a consultant for investor relations services to be provided over a term of 12 months upon certain conditions being met. As of March 31, 2010, $5,000 was recognized as deferred compensation (See Note 5).

(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.

The following table summarizes information about warrants for the Company as of March 31, 2010 and December 31, 2009(See Note 3).

2010 Warrants Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding at March 31, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2010	Weighted Average Exercise Price
$ 0.02	6,000,000	1.75	$ 0.02	6,000,000	$ 0.02

2009 Warrants Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2009	Weighted Average Exercise Price
$ 0.02	6,000,000	2.00	$ 0.02	6,000,000	$ 0.02

(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:

- 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

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(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 dividend. The stock dividend was distributed to 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.

(H) Shares issued in exchange for debt

On February 11, 2010 the Company authorized the issuance of 5,694,451 shares of Common Stock for the exercise price of $0.02/share in exchange for $100,000 in convertible notes payable and on April 6, 2010 the Company authorized the issuance of 854,169 shares of Common Stock for the exercise price of $0.02/share in exchange for $15,000 in convertible note payable (See Note 7).

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 6%. 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 4(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%.

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.

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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 nine 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 nine years from the date of this agreement, the term of the consulting agreement will be extended to 10 years.

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 nine 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 nine 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 nine 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 nine 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.

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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, 2010, the Company recorded interest expense and related accrued interest payable of $47,852. 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 $0.002. As of March 31, 2010, no accrued salary has been converted to Class “A” Common Stock. As of March 31, 2010 the Company owes $612,183 in accrued salary (See Note 6) and has accrued a derivative liability of $2,015,171 for the potential benefit of the convertible accrued salary as per FASB Accounting Standards Codification No. 480, *Distinguishing Liabilities from Equity*. 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, 2010. See table below for a breakdown of the derivative liability.

Date	Accrued Salary	Conversion Rate	Derivative Liability
3/1/2009	$ 388,718	$ 0.002	$ 1,846,411
3/1/09-3/31/10	$ 271,317	$ 0.007	$ 168,760
Total Derivative Liability Less Accrued Salary:			$ 2,015,171

On March 18, 2010, the Company entered into an addendum to the employment agreement whereby the Company will reimburse the employee and his family for up to $20,000 of out of pocket medical and dental care costs, including prescription costs or co-pays.

(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.

(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 June 30, 2009 the Company had accrued $14,000 of accounts payable for the services provided of which was paid in common stock on July 1, 2009 (See Note 4(C)). As of March 31, 2010, $3,000 was accrued for unpaid services provided during the period.

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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 FASB Accounting Standards Codification No 480, *Distinguishing Liabilities from Equity*, 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, 2010, 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. The due date was extended to March 31, 2011. On September 8, 2009, a payment of $15,000 was paid to the officer. An additional payment of $10,000 was made on October 19, 2009 and December 1, 2009, respectfully. Additionally, the accrued expenses are accruing 7% interest per year. On January 15, 2010 an additional payment of $10,000 was made. As of March 31, 2010, the outstanding balance is $75,000. At March 31, 2010, the Company recorded interest expense and related accrued interest payable of $11,585 (See Note 6).

On February 1, 2007 the Company entered into a consulting agreement for research and development for period of one year at a cost of $150,000. 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. On March 1, 2010 the Company entered into a one year consulting agreement for research and development. Pursuant to the terms of the agreement, the Company will be required to pay up to $150,000 in research and development fees on a cost reimbursement basis. The agreement expires on February 28, 2011 (See Note 7).

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 ($0.01/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 ($0.01/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 ($0.01/share). On January 15, 2008 the Company authorized the issuance of 400,000 shares of common stock for consulting services rendered with a fair value of $4,000 ($0.01/share). On July 1, 2009, the issuance of 482,825 shares was approved by the board of directors as partial payment for services previously provided to the Company by a consultant in accordance with a consulting agreement. The total amount of issuable shares for the consultant is 1,122,311 shares, which includes 400,000 issuable shares previously approved by the board of directors and 239,486 shares approved to be issued in November 2009 (See Note 4(C)).

(D)Consulting Agreement

On August 3, 2009, the Company entered into an agreement with a consultant to provide investor relations services. On October 5, 2009 the Company issued 10,000,000 shares with a fair value of $200,000 ($0.02/share) to a consultant for investor relations to be provided over a term of 180 days. The Company started receiving services beginning October 5, 2009. As of March 31, 2010 $196,667 was recorded as a consulting expense and $3,333 was recognized as a deferred compensation (See Notes 3 and 4(C)).

On January 15, 2010, the Company entered into an agreement with a consultant to provide investor relations services in exchange for 500,000 shares or $15,000. On January 15, 2010 the Company issued 500,000 shares with a fair value of $5,000 ($0.01/share) to a consultant for investor relations to be provided over a term of 12 months (See Note 4(C)).

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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 matured on May 1, 2007. At March 31, 2010, the Company recorded interest expense and related accrued interest payable of $776. As of March 31, 2010, the loan principle was repaid in full.

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 In accordance with FASB Accounting Standards Codification No. 480, *Distinguishing Liabilities from Equity*, 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, 2010, 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. On March 30, 2010, the officer extended the due date to the earlier of (a) March 30, 2011 or (b) upon demand by the officer. On September 8, 2009, a payment of $15,000 was paid to the officer. On October 19, 2009 and December 1, 2009, $10,000 was paid to the officer respectfully. An additional payment of $10,000 was made on January 15, 2010 As of March 31, 2010, the outstanding balance is $75,000. Additionally, the accrued expenses are accruing 7% interest per year. At March 31, 2010, the Company recorded interest expense and related accrued interest payable of $11,585 (See Note 5 (C) and 7).

As of March 31, 2010, the Company owes $612,183 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, 2010, the Company recorded interest expense and related accrued interest payable of $47,852. 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 $0.002. As of March 31, 2010, no accrued salary has been converted to Class “A” Common Stock (See Note 5(A)).

NOTE 7 SUBSEQUENT EVENTS

On April 6, 2010 the Company authorized the issuance of 854,169 shares of Common Stock for the exercise price of $0.02/share in exchange for $15,000 in convertible notes payable (See Note 3).

On May 18, 2010, the Company issued 4,000,000 shares of common stock for cash of $21,642 and in exchange of $6,990 in loans payable ($0.007158 per 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 2011 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, 2010.

Revenue for the quarter ended March 31, 2010 was $0. This compares to $0 in revenue for the preceding quarter ended March 31, 2009. 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, 2010 were $189,752. This compares to $79,491 in expenses during the quarter ended March 31, 2009. Research and development expenses for the quarter ended March 31, 2010 were $8,242. This compares to $5,945 spent on research and development during the quarter ended March 31, 2009. In addition, we had the following expenses during the quarter ended March 31, 2010: general and administrative-$18,143, professional fees-$4,977, officer's salary-$58,390 and public relations - $100,000. This compares to the same expenses during the quarter ended March 31, 2009: general and administrative-$15,461, professional fees-$3,000, officer's salary-$55,085 and public relations - $0.

Capital Resources and Liquidity

As of March 31, 2010 we had $3,620 in cash compared to $24,570 as of December 31, 2009

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 October 2009, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2009-13, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. The ASU significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. The ASU will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. Early adoption is permitted, provided that the guidance is retroactively applied to the beginning of the year of adoption. The Company does not expect the adoption of ASU No. 2009-13 to have any effect on its financial statements upon its required adoption on January 1, 2011.

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 property 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

On January 15, 2010 the Company issued 500,000 shares of Class A common stock with a fair value of $5,000 ($0.01/share) to a consultant for investor relations services to be provided over a term of 12 months upon certain conditions being met. As of March 31, 2010, $5,000 was recognized as deferred compensation.

From February 11, 2010 to March 31, 2010, the Company issued 5,694,451 shares of Class A common stock in exchange for $100,000 in convertible notes payable at a conversion price of approximately $0.018 per shares. In April 2010, the Company issued an additional 854,169 shares of Class A common stock in exchange for $15,000 in convertible notes payable at a conversion price of approximately $0.018 per share.

On October 5, 2009 the Company agreed to issue 10,000,000 shares of Class A common stock with a fair value of $200,000 ($0.02/share) to a consultant for investor relations to be provided over a term of 180 days. The Company started receiving services beginning October 5, 2009. In March 2010, the Company issued 10,000,000 shares of its Class A common stock to the consultant. As of March 31, 2010 $196,667 was recorded as an expense and $3,333 was recognized as deferred compensation.

The foregoing issuances of the shares were each an exempt transaction under Section 4(2) of the Securities Act of 1933 as a sale of securities not involving a public offering in that the investor and consultant are accredited investors as defined under Rule 501(a)(4), there was no public solicitation or advertisement and the Company had a reasonable basis to believe that the investor and the consultant were acquiring their shares for investment purposes and not with a view to resale or distribution.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed & Reserved

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 24, 2010

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