
EDGAR Submission Header Summary

Submission Type	10-Q
Live File	on
Return Copy	on
Confirming Copy	off
Period of Report	09/30/10
Smaller Reporting Company	off
Notify via Filing website Only	off

Documents

10-Q	f10q0910_kraig.htm
	Quarterly Report
EX-31.1	f10q0910ex31i_kraig.htm
	Certification Pursuant to Section 302 of Sarbanes Oxley Act of 2002
EX-32.2	f10q0910ex32i_kraig.htm
	Certification Pursuant to Section 906 of Sarbanes Oxley Act of 2002

Module and Segment References

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 333-146316

KRAIG BIOCRAFT LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

<u>Wyoming</u>	<u>83-0459707</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

120 N. Washington Square, Suite 805,
Lansing, Michigan 48933
(Address of principal executive offices) (Zip Code)

(517) 336-0807
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year,
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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 553,007,296 shares of the registrant's common stock, no par value, outstanding as of November 16, 2010.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

ASSETS

	September 30, 2010	December 31, 2009
	(Unaudited)	(Restated)
Current Assets		
Cash	\$ 11,206	\$ 24,570
Prepaid Expenses	5,000	3,124
Total Current Assets	16,206	27,694
Property and Equipment, net	844	-
Total Assets	\$ 17,050	\$ 27,694

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Accounts payable	\$ 165,783	\$ 111,871
Royalty agreement payable - related party	67,000	85,000
Accrued expenses - related party	355,222	631,576
Derivative liability	872,441	2,346,624
Total Current Liabilities	1,460,446	3,175,071
Long Term Liabilities		
Convertible note payable - net of debt discount	5,000	27,400
Total Liabilities	1,465,446	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, 546,850,250 and 502,495,099 shares issued and outstanding, respectively	1,649,082	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	2,812,267	42,060
Deferred Compensation	(110,000)	(103,333)
Deficit accumulated during the development stage	(5,821,745)	(4,156,554)
Total Stockholders' Deficit	(1,448,396)	(3,174,777)
Total Liabilities and Stockholders' Deficit	\$ 17,050	\$ 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		For the Nine Months Ended		For the Period
	September 30,	September 30,	September 30,	September 30,	from April 25,
	2010	2009	2010	2009	2006
		(Restated)		(Restated)	(Inception) to
					September 30,
					2010
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses					
General and Administrative	406,053	12,785	454,533	38,235	636,780
Public Relations	2,780	-	106,728	-	211,175
Amortization of Debt Discount	-	-	92,600	-	120,000
Professional Fees	68,227	6,785	93,513	22,824	217,517
Officer's Salary	58,390	55,154	175,169	173,935	1,068,005
Contract Settlement	-	-	-	-	107,143
Research and Development	51,099	5,946	75,216	63,854	520,024
Total Operating Expenses	<u>586,549</u>	<u>80,670</u>	<u>997,759</u>	<u>298,848</u>	<u>2,880,644</u>
Loss from Operations	(586,549)	(80,670)	(997,759)	(298,848)	(2,880,644)
Other Income/(Expenses)					
Other income	-	-	-	-	2,781
Amortization of Debt Discount	-	(4,059)	-	(4,059)	-
Change in fair value of embedded derivative liability	(756,073)	(131,729)	(748,097)	(131,729)	(2,974,719)
Change in fair value of embedded derivative liability-related party	(44,170)	543,456	119,485	(1,668,239)	119,485
Interest expense	(13,876)	(10,898)	(38,820)	(29,090)	(88,648)
Total Other Income/(Expenses)	<u>(814,119)</u>	<u>396,770</u>	<u>(667,432)</u>	<u>(1,833,117)</u>	<u>(2,941,101)</u>
Net (Income) Loss before Provision for Income Taxes	<u>(1,400,668)</u>	<u>316,100</u>	<u>(1,665,191)</u>	<u>(2,131,965)</u>	<u>(5,821,745)</u>
Provision for Income Taxes	-	-	-	-	-
Net Income (Loss)	<u>\$ (1,400,668)</u>	<u>\$ 316,100</u>	<u>\$ (1,665,191)</u>	<u>\$ (2,131,965)</u>	<u>\$ (5,821,745)</u>
Net Income (Loss) Per Share - Basic and Diluted	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	
Weighted average number of shares outstanding during the period - Basic and Diluted	<u>533,186,501</u>	<u>502,998,686</u>	<u>522,009,574</u>	<u>500,837,646</u>	

See accompanying notes to condensed unaudited financial statements

(\$.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	-	-	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	-	-	502,495,099	821,050	-	-	11,122,311	222,000	42,060	(103,333)	(4,156,554)	(3,174,777)
Stock issued for services (\$.01/share)	-	-	540,000	5,400	-	-	-	-	-	(5,000)	-	400

Stock issued for services (\$02/share)	-	-	17,885,915	334,000	-	-	-	-	-	-	-	334,000
Stock issued for services (\$08/share)	-	-	387,500	31,000	-	-	-	-	-	-	-	31,000
Stock issued for services (\$15/share)	-	-	200,000	30,000	-	-	-	-	-	-	-	30,000
Stock issued for services (\$05/share)	-	-	280,000	14,000	-	-	-	-	-	-	-	14,000
Warrants issued for services	-	-	-	-	-	-	-	-	168,000	(168,000)	-	-
Stock issued in connection with convertible note conversion	-	-	5,694,451	100,000	-	-	-	-	-	-	-	100,000
Stock issued in connection with convertible note conversion	-	-	854,169	15,000	-	-	-	-	-	-	-	15,000
Stock issued for cash (\$02/share)	-	-	10,000,000	200,000	-	-	(10,000,000)	(200,000)	-	-	-	-
Stock issued for cash (\$01/share)	-	-	4,000,000	28,632	-	-	-	-	-	-	-	28,632
Stock issued for cash (\$02/share)	-	-	4,513,116	70,000	-	-	-	-	-	-	-	70,000
Deferred compensation realized	-	-	-	-	-	-	-	-	-	166,333	-	166,333
Forgiveness of accrued payable to related party	-	-	-	-	-	-	-	-	499,412	-	-	499,412
Forgiveness of derivative liability to related party	-	-	-	-	-	-	-	-	2,102,795	-	-	2,102,795
Net loss for the nine months ended September 30, 2010	-	-	-	-	-	-	-	-	-	-	(1,665,191)	(1,665,191)
Balance, September 30, 2010	-	-	546,850,250	\$1,649,082	-	-	1,122,311	\$ 22,000	\$2,812,267	\$ (110,000)#	\$ (5,821,745)	\$(1,448,396)

See accompanying notes to condensed unaudited financial statements

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

	For the Nine Months Ended September 30,		For the Period from April 25, 2006 (Inception) to September 30, 2010
	2010	2009 (Restated)	
Cash Flows From Operating Activities:			
Net Loss	\$ (1,665,191)	\$ (2,131,965)	\$ (5,821,745)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation expense	67	-	67
Stock issuable for services	-	18,000	22,000
Change in Fair Value of Derivative Liability	628,613	1,799,968	2,975,237
Stock issued for services	414,000	14,000	596,180
Amortization of debt discount	92,600	4,059	-
Warrants issued to employees	168,000	-	126,435
Warrants issued to consultants	-	-	168,000
Deferred compensation realized	(6,666)	-	90,000
Changes in operating assets and liabilities:			
(Increase)Decrease in prepaid expenses	(1,876)	(2,521)	(5,000)
(Increase)Decrease in other receivables	-	(23,900)	-
Increase in accrued expenses and other payables - related party	225,794	203,041	857,371
(Decrease) Increase in royalty agreement payable - related party	(18,000)	(15,000)	67,000
Increase in accounts payable	51,174	10,900	163,045
Net Cash Used In Operating Activities	(111,485)	(123,418)	(761,410)
Cash Flows From Investing Activities:			
Purchase of Fixed Assets and Domain Name	(911)	-	(911)
Net Cash Used In Investing Activities	(911)	-	(911)
Cash Flows From Financing Activities:			
Proceeds from Notes Payable - Stockholder	-	-	10,000
Repayments of Notes Payable - Stockholder	-	-	(10,000)
Proceeds from issuance of convertible note	-	120,000	120,000
Proceeds from issuance of common stock	99,032	28,000	653,527
Net Cash Provided by Financing Activities	99,032	148,000	773,527
Net Increase (Decrease) in Cash	(13,364)	24,582	11,206
Cash at Beginning of Period	24,570	9,537	-
Cash at End of Period	\$ 11,206	\$ 34,119	\$ 11,206
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	\$ 115,000	\$ -	\$ 115,000
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 (\$.003/share). amount of \$84,375 (\$.003/share).

During the quarter ended September 30, 2010 the principal stockholder forgave \$499,412 in accrued compensation. Attached to the accrued compensation was an embedded derivative liability, which was also forgiven. The derivative liability had a fair value of \$2,102,795 at the date of forgiveness.

See accompanying notes to condensed unaudited financial statements

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2010

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 September 30, 2010 and 2009, 6,000,000 and 0 warrants were not included in the computation of income/ (loss) per share and 2,063,492 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.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2010

(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.

(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.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2010

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.

(K) Reclassification

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

NOTE 2 GOING CONCERN

As reflected in the accompanying financial statements, the Company is in the development stage, has a working capital deficiency of \$1,444,240 and stockholders' deficiency of \$1,448,396 and used \$761,410 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.

KRAIG BIOCRAFT LABORATORIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2010

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. On July 21, 2010, the issuance of 1,799,434 shares was approved by the board of directors in exchange for the \$15,000 specified in the put notice (See Note 7).

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 FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2010

Table 1 Warrants	Black Scholes Inputs for the Convertible Debt and Derivative Financial Instruments	
	As of December 31, 2009	As of September 30, 2010
Expected Volatility	448.62%	448.62%
Expected Term	2 years	1.25 years
Expected Dividends	0%	0%
Risk Free Interest Rate	1.45%	1.45%
Embedded Conversion Options	As of	As of
	December 31, 2009	September 30, 2010
Volatility	448.66%	448.62%
Expected Term	1 year	.5 years
Expected Dividends	0%	0%
Risk Free Interest Rate	1.45%	1.45%

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 September 30, 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 September 30, 2010 was approximately \$836,428. Based upon the estimated fair value, the Company increased the fair value of liability for warrant derivative instruments by approximately \$1,576,390 which was recorded as other expense for the nine months ended September 30, 2010.

The Company calculated the estimated fair values of the liabilities for embedded conversion option derivative instruments at December 31, 2009 and September 30, 2010 with the Black-Scholes option pricing model using the closing price of the Company's common stock, \$0.01 and \$0.14, respectively, and the ranges for volatility, expected term and risk free interest indicated in Table 1 above. The fair value of the embedded conversion liability at September 30, 2010 was approximately \$36,013. Based upon the estimated fair value, the Company decreased the fair value of liability for embedded conversion option derivative instruments by approximately \$28,412 which was recorded as other income for the nine months ended September 30, 2010.

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Following table summarizes convertible note payable outstanding as of September 30, 2010:

	Conventional Debt
Conventional debt	\$ 120,000
Less: debt conversion	\$ 115,000
Less: debt discount	\$ 0
Conventional debt, net of debt discount	<u>\$ 5,000</u>

At September 30, 2010, the Company recorded interest expense and related accrued interest payable of \$2,466. The Company also recorded \$92,600 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 note payable.

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).

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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 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).

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 note payables (\$0.007158 per share).

On July 21, 2010, the Company issued 1,875,000 shares of common stock for \$15,000 (\$0.008/share).

On September 10, 2010, the Company issued 1,351,351 shares of common stock for \$20,000 (\$0.0148/share).

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On September 22, 2010, the Company issued 1,286,765 shares of common stock for \$35,000 (\$0.0272/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 September 30, 2010 the value of the stock was \$.14 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)).

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 June 30, 2010 \$200,000 was recorded as an (See Notes 3 and 5(D)).

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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 once certain conditions are met. As of June 30, 2010, \$5,000 was recognized as deferred compensation (See Note 5).

On May 21, 2010 the Company issued 40,000 shares with a fair value of \$400 (\$0.01/share) to a consultant for research and development services (See Note 5(C)).

On July 30, 2010 the Company issued 2,400,000 shares with a fair value of \$30,000 (\$0.0125/share) to a consultant for legal services incurred in behalf of the Company.

On August 26, 2010 the Company issued 280,000 shares with a fair value of \$14,000 (\$0.05/share) to a consultant for research and development services provided in the past.

On August 26, 2010 the Company issued 985,915 shares with a fair value of \$14,000 (\$0.0142/share) to a consultant for research and development services provided in the past (See Note 5 (C)).

On August 26, 2010 the Company issued 4,500,000 shares with a fair value of \$90,000 (\$0.02/share) to a consultant for research and development services (See Note 5 (C)).

On August 26, 2010 the Company issued 10,000,000 shares with a fair value of \$200,000 (\$0.02/share) to a consultant for research and development services (See Note 5 (C)).

On September 16, 2010, the Company entered into an agreement with a consultant to provide technical support. On September 16, 2010 the Company issued 100,000 shares, as a sign on bonus, with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years (See Note 5(C)).

On September 16, 2010, the Company entered into an agreement with a consultant to provide technical support. On September 16, 2010 the Company issued 100,000 shares, as a sign on bonus, with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years (See Note 5(C)).

On September 23, 2010 the Company issued 387,500 shares with a fair value of \$31,000 (\$0.08/share) to a consultant for legal services incurred on behalf of the Company.

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(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.

On July 29, 2010, the Company issued a warrant for 20,000,000 common shares in connection to a consulting agreement. The warrant was value at \$200,000, the fair value of the services to be provided pursuant to the agreement. The warrant has a term of 2 years.

The following table summarizes information about warrants for the Company as of September 30, 2010 and December 31, 2009 (See Note 3).

2010 Warrants Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding at September 30, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2010	Weighted Average Exercise Price
\$ 0.02	6,000,000	1.25	\$ 0.02	6,000,000	\$ 0.02
\$ 0.00	20,000,000	1.83	0.00	20,000,000	0.00

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	2.25	\$ 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:

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- 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 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.

NOTE 5 COMMITMENTS AND CONTINGENCIES

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.

On September 30, 2010, the Company entered into an addendum to the employment agreement whereby all but \$250,000 of unpaid back salary will be forgiven by the principal stockholder. The addendum also eliminated the various milestone achievement awards from the prior employment agreements. In addition, the addendum reduced the interest rate to 3% per year. Further, the conversion rights for unpaid back salary were amended whereby the principal shareholder has the option to convert any accrued salary into Class "A" Common stock by dividing the dollar value of the debt to be converted to stock by the closing price of the stock on the date that the conversion notice is received by the Company. This amendment effectively eliminated any beneficial conversion features related to accrued salary of September 30, 2010. In exchange the Company will issue 10,000,000 preferred shares to the principal stockholder no later than September 30, 2011. The preferred shares will have super voting rights equal to 100 common shares per preferred share, but will not have any right to dividends or interest payments.

(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.

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(C) Royalty and Research Agreements

On September 16, 2010, the Company entered into an agreement with a consultant for research and development. On September 16, 2010 the Company issued 100,000 shares as a sign on bonus with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years (See Note 4(C)).

On September 16, 2010, the Company entered into an agreement with a consultant for research and development. On September 16, 2010 the Company issued 100,000 shares as a sign on bonus with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years (See Note 4(C)).

On May 21, 2010 the Company entered into a three year consulting agreement for research and development. Pursuant to the terms of the agreement, the Company is required to issue 40,000 shares upon the execution of the agreement and subsequently 10,000 shares per year during the three year term of the agreement. The annual payment of 10,000 shares for the three years begins on January 15 of each of the next three years following the execution of this agreement.

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)). For the quarter ended September 30, 2010 the Company issued 280,000 shares of common stock in exchange for \$14,000 of accounts payable for the services performed. As of September 30, 2010, \$1,000 was accrued for unpaid services provided during the year.

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 June 30, 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. During the quarter ending September 30, 2010 an additional payment of \$8,000 was made. As of September 30, 2010, the outstanding balance is \$67,000. At September 30, 2010, the Company recorded interest expense and related accrued interest payable of \$13,681 (See Note 6).

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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. On August 26, 2010, the Company entered into an addendum to the employment agreement where the monthly fee to the consultant was increased to \$10,000 per month starting on September 1, 2010. On August 26, 2010 the Company issued 985,915 shares with a fair value of \$14,000 (\$0.0142/share) to a consultant for research and development services provided in the past. In addition, On August 26, 2010 the Company issued 4,500,000 bonus shares with a fair value of \$90,000 (\$0.02/share) to a consultant for research and development services and 10,000,000 shares with a fair value of \$200,000 (\$0.02/share) to a consultant for research and development services (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 September 30, 2010 \$200,000 was recorded as a consulting expense (See Notes 3 and 4(C)).

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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)).

On July 29, 2010, the Company entered into an agreement with a consultant to provide investor relations services in exchange for a warrant for 20,000,000 common shares. The value of the services was \$200,000, which approximated fair value. The agreement will remain in effect until January 29, 2011(See Note 4(E)).

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 September 30, 2010, the Company recorded interest expense and related accrued interest payable of \$776. As of September 30, 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 June 30, 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, 2010 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. During the quarter ending September 30, 2010 an additional payment of \$8,000 was made. As of September 30, 2010, the outstanding balance is \$67,000. Additionally, the accrued expenses are accruing 7% interest per year. At September 30, 2010, the Company recorded interest expense and related accrued interest payable of \$13,681 (See Note 5 (C) and 7).

As of September 30, 2010, the Company owes \$250,000 in accrued salary to principal stockholder. On September 30, 2010, the Company entered into an addendum to the employment agreement whereby all but \$250,000 of unpaid back salary will be forgiven by the principal stockholder. Also, the interest rate was reduced to 3% per year. In exchange the Company will issue 10,000,000 preferred shares to the principal stockholder no later than September 30, 2011. The preferred shares will have super voting rights equal to 100 common shares per preferred share, but will not have any right to dividends or interest payments. As of September 30, 2010, no accrued salary has been converted to Class "A" Common Stock (See Note 5(A)).

NOTE 7 SUBSEQUENT EVENTS

On October 22, 2010, the Company issued 5,177,801 shares in connection with the cashless exercise of the 6,000,000 warrants.

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," "plan" 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 develop technology and products; changes in technology and the development of technology and intellectual property by competitors; the ability to protect technology and develop intellectual property; and other factors referenced in this and previous filings.

Given these uncertainties, readers of this filing 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 approximately \$35,000 per quarter through September 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.
- » 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 textile arena, in order to broaden our financial base and facilitate the commercialization of our products. We expect to use a combination of stock and cash for any such purchase.
- » We will also actively consider pursuing collaborative research opportunities with both private and 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.
- » We plan to actively pursue collaborative product testing, manufacturing and marketing opportunities with companies in the textile industry.

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 filing 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 nine months ended September 30, 2010 was \$0. This compares to \$0 in revenue for the for the nine month period which ended September 30, 2009. The Company has recently announced the development of new recombinant silk products. No revenue projections for the next twelve months are being made as these products are new and are not yet on the market.

Operating expenses for the nine months ended September 30, 2010 were \$997,759. This compares to \$298,848 in expenses during the nine month period which ended September 30, 2009. The primary reasons for the increase in operating expense were the amortization of debt discount of the discounts incurred on the issuance of convertible notes and the public relations expense line items. Management anticipates that public relations expense will increase over the next twelve months. Research and development expenses for the nine months ended September 30, 2010 were \$75,216. This compares to \$63,854 spent on research and development during the nine months ended September 30, 2009. The increase in research and development spending was the result of the reimbursement nature of our new collaborative research agreement with the University of Notre Dame, and Management anticipates that these costs will rise over the next twelve months. In addition, we had the following expenses during the nine month period which ended September 30, 2010: general and administrative \$454,533, professional fees \$93,513, officer's salary \$175,169 and public relations \$ 106,728. This compares to the same expenses during the nine month period which ended September 30, 2009: general and administrative \$38,235, professional fees \$22,824, officer's salary \$173,935 and public relations \$0.

Capital Resources and Liquidity

As of September 30, 2010 we had \$11,206 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 \$750,000. 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 commercialization of our products and further research and development of new 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 January 2010, the Financial Accounting Standards Board (“FASB”) amended the guidance on fair value to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarified existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The amendment also revised the guidance on employers’ disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. The new guidance is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not believe this amendment will have a material impact on the Company’s financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-12 (“ASU 2010-12”), Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts. On March 30, 2010, the President of the United States signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed on March 23, 2010 (collectively, the “Acts”). ASU No. 2010-12 allows entities to consider the two Acts together for accounting purposes. Upon adoption, the elimination of the future tax deduction for prescription drug costs associated with the Company’s post-retirement medical and dental plans was not material to the Company’s financial position, results of operations or cash flows. The Company does not believe this amendment will have a material impact on the Company’s financial statements.

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 4T. Controls and Procedures

Disclosure Controls and Procedures.

The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean controls and other procedures of an issuer that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company maintains such a system of controls and procedures in an effort to ensure that all information which it is required to disclose in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified under the SEC’s rules and forms and that information required to be disclosed is accumulated and communicated to principal executive and principal financial officers to allow timely decisions regarding disclosure.

The Company carried out an evaluation, under the supervision and 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 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.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

On July 21, 2010, the Company issued 1,875,000 shares of common stock for \$15,000 (\$0.008/share).

On July 29, 2010, the Company issued a warrant for 20,000,000 common shares in connection to a consulting agreement. The warrant was value at \$200,000, the fair value of the services to be provided pursuant to the agreement. The warrant has a term of 2 years.

On July 30, 2010 the Company issued 2,400,000 shares with a fair value of \$30,000 (\$0.0125/share) to a consultant for legal services incurred in behalf of the Company.

On August 26, 2010 the Company issued 280,000 shares with a fair value of \$14,000 (\$0.05/share) to a consultant for research and development services provided in the past.

On August 26, 2010 the Company issued 985,915 shares with a fair value of \$14,000 (\$0.0142/share) to a consultant for research and development services provided in the past.

On August 26, 2010 the Company issued 4,500,000 shares with a fair value of \$90,000 (\$0.02/share) to a consultant for research and development services.

On August 26, 2010 the Company issued 10,000,000 shares with a fair value of \$200,000 (\$0.02/share) to a consultant for research and development services.

On September 10, 2010, the Company issued 1,351,351 shares of common stock for \$20,000 (\$0.0148/share).

On September 16, 2010, the Company entered into an agreement with a consultant to provide technical support. On September 16, 2010 the Company issued 100,000 shares, as a sign on bonus, with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years.

On September 16, 2010, the Company entered into an agreement with a consultant to provide technical support. On September 16, 2010 the Company issued 100,000 shares, as a sign on bonus, with a fair value of \$15,000 (\$0.15/share) to the consultant for technical support to be provided over the next 3 years. In addition, the consultant shall receive 30,000 shares for three years commencing on or about September 10 of each of the next three years.

On September 22, 2010, the Company issued 1,286,765 shares of common stock for \$35,000 (\$0.0272/share).

On September 23, 2010 the Company issued 387,500 shares with a fair value of \$31,000 (\$0.08/share) to a consultant for legal services incurred on behalf of the Company.

On October 22, 2010, the Company issued 5,177,801 shares of common stock to Calm Seas Capital LLC upon cashless exercise by the holder of certain warrants to purchase common stock previously issued to it by the Company.

The foregoing issuances of the shares were effectuated pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), provided by Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder.

Item 5. Other Information

On September 30, 2010, the Company entered into an addendum to the employment agreement whereby all but \$250,000 of unpaid back salary will be forgiven by the principal stockholder. The addendum also eliminated the various milestone achievement awards from the prior employment agreements. In addition, the addendum reduced the interest rate to 3% per year. Further, the conversion rights for unpaid back salary were amended whereby the principal shareholder has the option to convert any accrued salary into Class "A" Common stock by dividing the dollar value of the debt to be converted to stock by the closing price of the stock on the date that the conversion notice is received by the Company. This amendment effectively eliminated any beneficial conversion features related to accrued salary of September 30, 2010. In exchange the Company will issue 10,000,000 preferred shares to the principal stockholder no later than September 30, 2011. The preferred shares will have super voting rights equal to 100 common shares per preferred share, but will not have any right to dividends or interest payments.

Item 6. Exhibits

(a) Exhibits

- 31.1 Certifications by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: November 17, 2010

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

CERTIFICATION

I, Kim Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kraig Biocraft Laboratories, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding their reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 17, 2010

/s/ Kim Thompson

Kim Thompson
Chief Executive Officer (principal executive officer)
and Chief Financial Officer (principal financial and accounting officer)

**Certification Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Kraig Biocraft Laboratories, Inc. for the period ended September 30, 2010 (the "Report"), I, Kim Thompson, Chief Executive Officer and Chief Financial Officer of Kraig Biocraft Laboratories, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents in all material respects, the financial condition and results of operations of Kraig Biocraft Laboratories, Inc.

Date: November 17, 2010

/s/ Kim Thompson

Kim Thompson
Chief Executive Officer (principal executive officer) and
Chief Financial Officer (principal financial and accounting officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.