CLEVELAND BIOLABS INC
Form 10QSB
August 14, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

(Mark one)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2007

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934**

For the transition period from _____ to _____.

Commission File Number 001-12465

CLEVELAND BIOLABS, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE	**20-0077155**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

73 High Street
BUFFALO, NEW YORK 14203
(Address of principal executive offices and zip code)

(716) 849-6810
(Issuer's telephone number)

Check whether the issuer (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 x NO ¨

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

YES ¨ NO x

As of June 30, 2007 there were 12,114,152 shares of registrant's common stock, $0.005 par value

Transitional Small Business Disclosure Format (Check One): YES ¨ NO x

CLEVELAND BIOLABS INC
10-QSB
08/14/2007

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In this report, “Cleveland BioLabs,” “CBL,”“we,” “us” and “our” refer to Cleveland BioLabs, Inc. “common stock” refers to Cleveland BioLabs, Inc.’s common stock, par value $0.005 per share.

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

June 30, 2007 (unaudited) and December 31, 2006

	June 30 2007 (unaudited)	December 31 2006
ASSETS		
CURRENT ASSETS		
Cash and equivalents	$ 9,587,660	$ 3,061,993
Short-term investments	17,999,965	1,995,836
Accounts receivable:		
Trade	669,204	159,750
Interest	271,665	42,479
Notes Receivable - Orbit Brands	300,000	50,171
Other prepaid expenses	532,925	434,675
Total current assets	29,361,419	5,744,904
EQUIPMENT		
Computer equipment	181,471	132,572
Lab equipment	487,313	347,944
Furniture	72,497	65,087
	741,281	545,603
Less accumulated depreciation	203,692	142,011
	537,589	403,592
OTHER ASSETS		
Intellectual Property	372,016	252,978
Deposits	16,477	15,055
	388,493	268,033
TOTAL ASSETS	$ 30,287,501	$ 6,416,529

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

June 30, 2007 (unaudited) and December 31, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30 2007 (unaudited)	December 31 2006
CURRENT LIABILITIES		
Accounts payable:		
Trade	$ 1,151,831	$ 644,806
Milestone payable (current)	250,000	-
Deferred revenue	2,000,000	-
Accrued expenses	292,008	128,569
Total current liabilities	3,693,839	773,375
LONG-TERM LIABILITIES		
Milestone payable (long-term)	-	50,000
Total long-term liabilities	-	50,000
STOCKHOLDERS' EQUITY		
Series B convertible preferred stock, $.005 par value		
Authorized - 10,000,000 shares at June 30, 2007 and December 31, 2006	22,895	-
Issued and outstanding 4,579,010 and 0 shares at June 30, 2007 and December 31, 2006, respectively		
Additional paid-in capital	28,845,232	-
Common stock, $.005 par value		
Authorized - 40,000,000 shares at June 30, 2007 and December 31, 2006		
Issued and outstanding 12,114,152 and 11,826,389 shares at June 30, 2007 and December 31, 2006, respectively	60,571	59,132
Additional paid-in capital	22,362,732	18,314,097
Accumulated other comprehensive income (loss)	-	(4,165)
Accumulated deficit	(24,697,768)	(12,775,910)
Total stockholders' equity	26,593,662	5,593,154
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,287,501	$ 6,416,529

CLEVELAND BIOLABS, INC.

STATEMENT OF OPERATIONS

Three Months and Six Months Ending June 30, 2007 and 2006 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30 2007 (unaudited)	June 30 2006 (unaudited)	June 30 2007 (unaudited)	June 30 2006 (unaudited)
REVENUES				
Grant	$ 516,007	$ 554,996	$ 787,453	$ 1,008,420
Service	120,000	20,000	170,000	145,000
	636,007	574,996	957,453	1,153,420
OPERATING EXPENSES				
Research and Development	3,966,711	1,558,117	7,557,726	3,060,480
Selling, general and administrative	4,782,257	305,782	5,776,577	658,681
Total operating expenses	8,748,968	1,863,899	13,334,303	3,719,161
LOSS FROM OPERATIONS	(8,112,961)	(1,288,903)	(12,376,850)	(2,565,741)
OTHER INCOME				
Interest Income	359,651	15,390	456,080	44,529
OTHER EXPENSE				
Interest Expense	-	4,495	1,087	8,941
NET LOSS	$ (7,753,310)	$ (1,278,008)	$ (11,921,857)	$ (2,530,153)
DIVIDENDS ON CONVERTIBLE PREFERRED STOCK	-	(98,644)	-	(162,800)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (7,753,310)	$ (1,376,652)	$ (11,921,857)	$ (2,692,953)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS PER SHARE OF COMMON STOCK - BASIC AND DILUTED	$ (0.64)	$ (0.21)	$ (1.00)	$ (0.41)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN CALCULATING NET LOSS PER SHARE, BASIC AND DILUTED	12,024,549	6,544,150	11,939,759	6,519,913

CLEVELAND BIOLABS, INC.

STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2007 and 2006 (unaudited)

	June 30 2007 (unaudited)	June 30 2006 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (11,921,857)	$ (2,530,153)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	61,681	43,692
Noncash interest expense	-	8,941
Noncash salaries and consulting expense	3,891,458	367,197
Deferred compensation	-	4,569
Changes in operating assets and liabilities:		
Accounts receivable - trade	(509,454)	-
Accounts receivable - interest	(229,014)	13,798
Other prepaid expenses	(98,250)	2,556
Deposits	(1,422)	(2,488)
Accounts payable	507,024	235,690
Deferred revenue	2,000,000	21,110
Accrued expenses	163,440	13,666
Milestone payments	200,000	50,000
Total adjustments	5,985,463	758,730
Net cash (used in) provided by operating activities	(5,936,394)	(1,771,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/(purchase) of short-term investments	(15,999,965)	1,000,000
Issuance of notes receivable	(250,000)	-
Purchase of equipment	(195,679)	(124,418)
Costs of patents pending	(119,038)	(13,540)
Net cash (used in) provided by investing activities	(16,564,682)	862,042
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred stock	30,020,984	-
Financing costs	(1,152,857)	(312,053)
Dividends	-	(23)
Issuance of common stock	158,616	-
Net cash (used in) provided by financing activities	29,026,743	(312,076)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	6,525,667	(1,221,456)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	3,061,993	1,223,600

CASH AND EQUIVALENTS AT END OF PERIOD	$	9,587,660	$	2,144
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	-	$	-
Cash paid during the year for income taxes	$	-	$	-
Supplemental schedule of noncash financing activities:				
Issuance of stock options to employees, consultants, and independent board members	$	2,350,158	$	367,197
Issuance of common stock dividend to preferred shareholders	$	-	$	-
Issuance of shares to consultants	$	1,541,300	$	-

CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2006 to December 31, 2006 and to
June 30, 2007 (unaudited)

	Stockholders' Equity			
	Common Stock			
	Shares	Amount	Additional Paid-in Capital	Penalty Shares
Balance at January 1, 2006	6,396,801	31,984	3,338,020	81,125
Issuance of shares - previously accrued penalty shares	54,060	270	80,855	(81,125)
Issuance of shares - stock dividend	184,183	922	367,445	-
Issuance of penalty shares	15,295	76	(76)	-
Issuance of shares - initial public offering	1,700,000	8,500	10,191,500	-
Fees associated with initital public offering	-	-	(1,890,444)	-
Conversion of preferred stock to common stock	3,351,219	16,756	5,291,385	-
Conversion of notes payable to common stock	124,206	621	312,382	-
Issuance of options	-	-	506,078	-
Exercise of options	625	3	2,810	-
Issuance of warrants	-	-	114,032	-
Proceeds from sales of warrants	-	-	110	-
Net loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses) arising during period	-	-	-	-

Less reclassification adjustment for (gains) losses included in net loss	-	-	-	-
Comprehensive loss				
Balance at December 31, 2006	11,826,389	$ 59,132	$ 18,314,097	$ -
Issuance of options	-	-	2,350,158	-
Issuance of Series B Preferred Shares	-	-	-	-
Fees associated with Series B Preferred offering	-	-	-	-
Issuance of restricted shares	175,000	875	1,540,425	-
Exercise of options	67,505	338	67,763	-
Exercise of warrants	45,258	226	90,289	-
Net Loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses) arising during period	-	-	-	-
Less reclassification adjustment for (gains) losses included in net loss	-	-	-	-
Comprehensive loss				
Balance at June 30, 2007	12,114,152	$ 60,571	$ 22,362,732	$ -

See accompanying notes

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	Stockholders' Equity			
	Preferred Stock			
	Shares	Amount	Additional Paid-in Capital	Penalty Shares
Balance at January 1, 2006	3,051,219	15,256	4,932,885	360,000
Issuance of shares - previously accrued penalty shares	240,000	1,200	358,800	(360,000)
Issuance of shares - stock dividend	-	-	-	-
Issuance of penalty shares	60,000	300	(300)	-
Issuance of shares - initial public offering	-	-	-	-
Fees associated with initital public offering	-	-	-	-
Conversion of preferred stock to common stock	(3,351,219)	(16,756)	(5,291,385)	-
Conversion of notes payable to common stock	-	-	-	-
Issuance of options	-	-	-	-
Exercise of options	-	-	-	-
Issuance of warrants	-	-	-	-
Proceeds from sales of warrants	-	-	-	-
Net loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses) arising during period	-	-	-	-
Less reclassification adjustment for (gains) losses included in net loss	-	-	-	-
Comprehensive loss				
Balance at December 31, 2006	-	$ -	$ -	$ -

Issuance of options	-	-	-	-
Issuance of Series B Preferred Shares	4,288,712	21,444	29,999,540	-
Fees associated with Series B Preferred offering	290,298	1,451	(1,154,308)	-
Issuance of restricted shares	-	-	-	-
Exercise of options	-	-	-	-
Exercise of warrants	-	-	-	-
Net Loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses) arising during period	-	-	-	-
Less reclassification adjustment for (gains) losses included in net loss	-	-	-	-
Comprehensive loss				
Balance at June 30, 2007	4,579,010	$ 22,895	$ 28,845,232	$ -

See accompanying notes

	Stockholders' Equity			
	Other Comprehensive Income/(Loss)	Accumulated Deficit	Total	Comprehensive Income (Loss)
Balance at January 1, 2006	(17,810)	(5,184,856)	3,556,604	
Issuance of shares - previously accrued penalty shares	-	-	-	
Issuance of shares - stock dividend	-	(368,410)	(43)	
Issuance of penalty shares	-	-	-	
Issuance of shares - initial public offering	-	-	10,200,000	
Fees associated with initital public offering	-	-	(1,890,444)	
Conversion of preferred stock to common stock	-	-	-	
Conversion of notes payable to common stock	-	-	313,003	
Issuance of options	-	-	506,078	
Exercise of options	-	-	2,813	
Issuance of warrants	-	-	114,032	
Proceeds from sales of warrants	-	-	110	
Net loss	-	(7,222,644)	(7,222,644)	(7,222,644)
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses) arising during period	6,678	-	6,678	$ 6,678
Less reclassification adjustment for (gains) losses included in net loss	6,967	-	6,967	$ 6,967
Comprehensive loss				$ (7,208,999)
Balance at December 31, 2006	$ (4,165)	$ (12,775,910)	$ 5,593,154	

Issuance of options	-	-	2,350,158		
Issuance of Series B Preferred Shares	-	-	30,020,984		
Fees associated with Series B Preferred offering	-	-	(1,152,857)		
Issuance of restricted shares	-	-	-		
Exercise of options	-	-	68,101		
Exercise of warrants	-	-	90,515		
Net Loss	-	(11,921,858)	(11,921,858)		(11,921,858)
Other comprehensive income					
Unrealized gains (losses) on short term investments					
Changes in unrealized holding gains (losses) arising during period	-	-	-	$	-
Less reclassification adjustment for (gains) losses included in net loss	4,165	-	4,165	$	4,165
Comprehensive loss				$	(11,917,693)
Balance at June 30, 2007	$ -	$ (24,697,768)	$ 26,593,662		

See accompanying notes

CLEVELAND BIOLABS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Cleveland BioLabs, Inc. (“CBL” or the “Company”) is engaged in the discovery, development and commercialization of products for cancer treatment and protection of normal tissues from radiation and toxins. The Company was incorporated under the laws of the State of Delaware on June 5, 2003 and is headquartered in Buffalo, New York. The Company's initial technological development efforts are intended to be used as powerful antidotes with a broad spectrum of applications including protection from cancer treatment side effects, radiation and hypoxia. A recent discovery found that one of its compounds increases the number of progenitor (originator) stem cells in mouse bone marrow. To date, the Company has not developed any commercial products. The Company has developed and produced biological compounds under a single commercial development contract.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation - The information at June 30, 2007 and June 30, 2006, and for the quarter and six-month periods ended June 30, 2007 and June 30, 2006, is unaudited. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with CBL’s audited financial statements for the year ended December 31, 2006, which were contained in the Company’s Annual Report on Form 10-KSB filed with the U.S. Securities and Exchange Commission.

B. Cash and Equivalents - The Company considers highly liquid investments with a maturity date of three months or less to be cash equivalents. In addition, the Company maintains cash and equivalents at financial institutions, which may exceed federally insured amounts at times and which may, at times, significantly exceed balance sheet amounts due to outstanding checks.

C. Marketable Securities and Short Term Investments - The Company considers investments with a maturity date of more than three months to maturity to be short-term investments and has classified these securities as available-for-sale. Such investments are carried at fair value, with unrealized gains and losses included as accumulated other comprehensive income (loss) in stockholders' equity. The cost of available-for-sale securities sold is determined based on the specific identification method.

D. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements, which generally require payment within 30 days. Management estimates an allowance for doubtful accounts which is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. There is no allowance for doubtful accounts as of June 30, 2007 and December 31, 2006.
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E. Notes Receivable - On December 7, 2006 the Company entered into an agreement with the Orbit Brands Corporation (Borrower) and its subsidiaries whereby the Company would lend up to $150,000 each on two promissory notes to the Borrower at a rate of 5% per annum with a maturity date of one year. The proceeds of the loans shall be used by the Borrower solely to cover expenses associated with converting the notes into common stock and preparing the lending motions for the bankruptcy case involving the Borrower. The loans are convertible

into common stock of the Borrower and its subsidiaries. As of June 30, 2007 the balance outstanding was $300,000 plus accrued interest of $5,479.

F. Equipment - Equipment is stated at cost and depreciated over the estimated useful lives of the assets (generally five years) using the straight-line method. Leasehold improvements are depreciated on the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized and depreciated. Depreciation expense was $34,016, and $23,451 for the quarters ended June 30, 2007 and 2006 respectively. Depreciation expense was $61,861 and $43,692 for the six months ended June 30, 2007 and 2006, respectively.

G. Impairment of Long-Lived Assets - In accordance with Statements of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets to be held and used, including equipment and intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets or related asset group may not be recoverable. Determination of recoverability is based on an estimate of discounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the asset or asset group, the carrying amount of the asset is written down to its estimated net realizable value.

H. Intellectual Property - The Company capitalizes the costs associated with the preparation, filing, and maintenance of certain intellectual property rights. Capitalized intellectual property is reviewed annually for impairment.

A portion of this intellectual property is owned by the Cleveland Clinic Foundation (“CCF”) and granted to the Company through an exclusive licensing agreement. As part of the licensing agreement, CBL agrees to bear the costs associated with the preparation, filing and maintenance of patent applications relating to this intellectual property. If the patent application is approved, the costs paid by the Company are amortized on a straight-line basis over the shorter of 17 years or the anticipated useful life of the patent. If the patent application is not approved, the costs associated with the preparation and filing of the patent application by the Company on behalf of CCF will be expensed as part of selling, general and administrative expenses. Gross capitalized patents pending costs are $333,630 and $222,789 on behalf of CCF for 12 patent applications as of June 30, 2007 and December 31, 2006, respectively. During the quarter ended, the number of patents on behalf of CCF was reduced to 12 as one patent was combined with another. All of the CCF patent applications are still pending approval.

The Company also has submitted three patent applications as a result of intellectual property exclusively developed and owned by the Company. If the patent applications are approved, costs paid by the Company associated with the preparation, filing, and maintenance of the patents will be amortized on a straight-line basis over the shorter of 17 years or the anticipated useful life of the patent. If the patent application is not approved, the costs associated with the preparation and filing of the patent application will be expensed as part of selling, general and administrative expenses at that time. Gross capitalized patents pending costs were $38,386 and $30,189 on behalf of the Company for three patent applications as of June 30, 2007 and December 31, 2006, respectively. The patent applications are still pending approval.

I. Line of Credit - The Company has a working capital line of credit that is fully secured by short-term investments. This fully-secured working capital line of credit carries an interest rate of prime minus 1%, a borrowing limit of $500,000, and expires on August 30, 2007. At June 30, 2007, there were no outstanding borrowings under this credit facility.

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J. Fair Value of Financial Instruments - Financial instruments, including cash and equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities, are carried at net realizable value. The carrying amounts of the convertible notes payable approximate their respective fair values as they bear terms that are comparable to those available under current market conditions.

K. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under these circumstances. Actual results could differ from those estimates.

L. Revenue Recognition - The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition.” Revenue sources consist of government grants, government contracts and commercial development contracts.

Revenues from federal government grants and contracts are for research and development purposes and are recognized in accordance with the terms of the award and the government agency. Grant revenue is recognized in one of two different ways depending on the grant. Cost reimbursement grants require us to submit proof of costs incurred that are invoiced by us to the government agency, which then pays the invoice. In this case, grant revenue is recognized at the time of submitting the invoice to the government agency.

Fixed cost grants require no proof of costs and are paid as a request for payment is submitted for expenses. The grant revenue under these fixed costs grants is recognized using a percentage-of-completion method, which uses assumptions and estimates. These assumptions and estimates are developed in coordination with the principal investigator performing the work under the government fixed-cost grants to determine key milestones, expenses incurred, and deliverables to perform a percentage-of-completion analysis to ensure that revenue is appropriately recognized. Critical estimates involved in this process include total costs incurred and anticipated to be incurred during the remaining life of the grant. Government contract revenue is recognized periodically upon delivery of an invoice for allowable R&D expenses according to the terms of the contract. The Company has recognized grant revenue from the following agencies: the U.S. Army (DARPA), National Aeronautics and Space Administration (NASA), the National Institutes of Health (NIH) and the Department of Health and Human Services (HHS). Commercial development revenues are recognized when the service or development is delivered.

M. Deferred Revenue - Deferred Revenue results when payment is received in advance of revenue being earned. When cash is received, the Company makes a determination as to whether the revenue has been earned by applying a percentage-of-completion analysis to compute the need to recognize deferred revenue. The percentage of completion method is based upon (1) the total income projected for the project at the time of completion and (2) the expenses incurred to date. The percentage-of-completion can be measured using the proportion of costs incurred versus the total estimated cost to complete the contract.

N. Research and Development - Research and development expenses consist primarily of costs associated with the clinical trials of drug candidates, compensation and other expenses for research and development, personnel, supplies and development materials, costs for consultants and related contract research and facility costs. Expenditures relating to research and development are expensed as incurred.

O. 2006 Equity Incentive Plan - On May 26, 2006, the Company's Board of Directors adopted the 2006 Equity Incentive Plan (“Plan”) to attract and retain persons eligible to participate in the Plan, motivate participants to achieve long-term Company goals, and further align participants' interests with those of the Company's other stockholders. The Plan expires on May 26, 2016 and provides for up to 2,000,000 shares of stock to be awarded. For the year ended December 31, 2006, 45,000 options were granted to independent board members. On February 14, 2007, these 2,000,000 shares were registered with the SEC by filing a Form S-8 registration statement. For the quarter ended June 30, 2007, there were 405,500 options and 175,000 shares granted under the Plan, and as of June 30, 2007 there were 570,000 stock options and 175,000 shares granted under the Plan totaling 745,000 equity instruments awarded under the Plan.

P. Stock-Based Compensation - The FASB issued SFAS No. 123(R) (revised December 2004), Share Based Payment, which is a revision of SFAS No. 123 Accounting for Stock-Based Compensation. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. The Company values employee stock based compensation under the provisions of SFAS 123(R) and related interpretations.

The fair value of each stock option granted is estimated on the grant date. The Black Scholes model is used for standard stock options, but if market conditions are present within the stock options, the company utilizes Monte Carlo simulation to value the stock options The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect the Company's experience. The Company uses a risk-free rate based on published rates from the St. Louis Federal Reserve at the time of the option grant, assumes a forfeiture rate of zero, assumes an expected dividend yield rate of zero based on the Company's intent not to issue a dividend in the foreseeable future, uses an expected life based on safe harbor method, and computes an expected volatility based on similar high-growth, publicly-traded, biotechnology companies. The Company does not include the use of its own stock in the volatility calculation at this time because of the brief history of the stock as a publicly traded security on a listed exchange. The Company recognizes the fair value of share-based compensation in net income on a straight-line basis over the requisite service period.

During the quarter ended June 30, 2007, the Company granted 405,500 stock options pursuant to stock award agreements to certain employees and key consultants. The assumptions used to value these option and warrant grants are as follows:

	Quarter Ended June 30, 2007
Risk-free interest rate	4.67 - 5.18%
Expected dividend yield	0%
Expected life - Black-Scholes	5 - 6 years
Expected volatility	72.48 - 73.56%

The Company recognized a total of $1,974,858 in expense related to options for the three months ended June 30, 2007, and $2,350,158 for the six months ended June 30, 2007.

The weighted average, estimated grant date fair values of stock options granted during the quarter-ended June 30, 2007 was $5.95. The weighted average, estimated grant date fair values of stock options granted during the six months-ended June 30, 2007 was $5.93.

The following tables summarize the stock option activity for the six months ended June 30, 2007 and June 30, 2006, respectively.

	Shares	**Weighted Average Exercise Price per Share**	**Weighted Average Remaining Contractual Term (in Years)**
Outstanding, December 31, 2006	483,490	$ 2.17	

Granted	525,000	$	9.79	
Exercised	69,000	$	1.28	
Forfeited, Canceled	0		n/a	
Outstanding, June 30, 2007	939,490	$	6.50	9.02
Exercisable, June 30, 2007	637,680	$	6.02	9.03

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding, December 31, 2005	324,240	$ .82	
Granted	116,750	$ 4.50	
Exercised	0	n/a	
Forfeited, Canceled	0	n/a	
Outstanding, June 30, 2006	440,990	$ 1.79	9.19
Exercisable, June 30, 2006	195,058	$ 1.87	9.10

In addition, the company recognized $1,541,300 in expense for shares issued under the Plan to various consultants during the six months ended June 30, 2007, all of which was recognized in the three months ended June 30. 2007 .

Q. Net Loss Per Share - Basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period.

The following table presents the calculation of basic and diluted net loss per share for the quarters ended:

	Quarter Ended June 30, 2007	Quarter Ended June 30, 2006	Six-Months Ended June 30, 2007	Six-Months Ended June 30, 2006
Net loss available to common shareholders	$ (7,753,310)	$ (1,376,652)	$ (11,921,857)	$ (2,692,953)
Net loss per share, basic and diluted	$ (.64)	$ (.21)	$ (1.00)	$ (.41)
Weighted-average shares used in computing	12,024,549	6,544,150	11,939,759	6,519,913

The Company has excluded all outstanding warrants and options from the calculation of diluted net loss per share because all such securities are antidilutive for all applicable periods presented.

The total number of shares excluded from the calculations of diluted net loss per share, prior to application of the treasury stock method for warrants, was 3,456,768 and 594,424 for the quarters ended June 30, 2007 and 2006, respectively. Such securities, had they been dilutive, would have been included in the computation of diluted earnings per share.

The total number of shares excluded from the calculations of diluted net loss per share, prior to the application of the treasury stock method for options, was 939,490 and 440,990 for the quarters ended June 30, 2007 and 2006, respectively. Such securities, had they been dilutive, would have been included in the computation of diluted earnings per share.

R. Concentrations of Risk - Grant revenue was comprised wholly from grants and contracts issued by the federal government and accounted for 81.1% and 96.5% of total revenue for the quarter ended June 30, 2007 and 2006, respectively. Grant revenue accounted for 82.2% and 87.4% for the six months ended June 30, 2007 and 2006, respectively. Although the Company anticipates ongoing federal grant revenue, there is no guarantee that this revenue stream will continue in the future.

Financial instruments that potentially subject us to a significant concentration of credit risk consist primarily of cash and cash equivalents and securities available-for-sale. The Company maintains deposits in federally insured institutions in excess of federally insured limits. The Company does not believe it is exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. Additionally, the Company has established guidelines regarding diversification of its investment portfolio and maturities of investments, which are designed to meet safety and liquidity.

S. Foreign Currency Exchange Rate Risk - The Company has entered into a manufacturing agreement with a foreign third party to produce one of its drug compounds and is required to make payments in the foreign currency. As a result, the Company's financial results could be affected by changes in foreign currency exchange rates. Currently, the Company's exposure primarily exists with the Euro Dollar. As of June 30, 2007, the Company is obligated to make payments under the agreement of 527,500 Euros. The Company has established means to purchase forward contracts to hedge against this risk. As of June 30, 2007, no hedging transactions have been consummated.

T. Comprehensive Income/(Loss) - The Company applies Statement of Financial Accounting Standards (SFAS) No. 130, “Reporting Comprehensive Income.” SFAS No. 130 requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

Note 3. Stock Transactions

On February 1, 2006, the Company paid a common stock dividend of 91,776 shares to holders of the Series A preferred stock to satisfy the dividend requirement of the preferred stock issuance.

On March 1, 2006, the Company issued 116,750 stock options to various employees and consultants of the Company under non-qualified stock option agreements. These options allow for the purchase of 116,750 shares of common stock at a price of $4.50. These options have a three-year vesting schedule and expire on February 29, 2016. See Note 4 for further details on stock option agreements.

On June 21, 2006, after the expiration of the 115-day extension and an additional 30-day period, the Company incurred one additional penalty period in which 60,000 shares of Series A preferred stock were earned at $120,000 and 15,295 shares of common stock were earned at $30,590. The Company has not incurred any further obligation to issue penalty shares since these issuances.

On July 20, 2006, the Company sold 1,700,000 shares of common stock in its initial public offering at $6.00 per share. The net proceeds to the Company from this offering were approximately $8,300,000. Beginning July 21, 2006, the Company's shares were quoted on the NASDAQ Capital Market and listed on the Boston Stock Exchange under the symbols “CBLI” and “CFB” respectively. In connection with its initial public offering, the Company sold warrants to purchase 170,000 shares of common stock to the underwriters and their designees at a cost of $100.00. The warrants have an exercise price of $8.70 per share.

On July 20, 2006, the effective date of the Company's initial public offering, the Company issued 92,407 shares of common stock as accumulated dividends to the Series A preferred stockholders. On the same date, all of the Company's Series A Preferred shares automatically converted on a one-for-one basis into 3,351,219 shares of common stock and notes of the Company in the principal amount of $283,500 plus accrued interest of $29,503 automatically converted into 124,206 shares of common stock. In connection with their appointment to the Board, the Company issued to each of the Company's three new independent directors, options to purchase 15,000 shares of common stock with an exercise price of $6.00 per share.

On September 21, 2006, the SEC declared effective a registration statement of the Company registering up to 4,453,601 shares of common stock for resale from time to time by the selling stockholders named in the prospectus contained in the registration statement. The Company will not receive any proceeds from the sale of the underlying shares of common stock, although to the extent the selling stockholders exercise warrants for the underlying shares of common stock, the Company will receive the exercise price of those warrants. The registration statement was filed to satisfy registration rights that the Company had previously granted.

On November 16, 2006 the Company issued 50,000 warrants to an outside consultant. These warrants are immediately exercisable into common shares of the Company and have an exercise price of $6.00 per share and an expiration date of November 16, 2011.

On February 14, 2007, the Company issued 99,500 stock options to various employees and consultants of the Company under non-qualified stock option agreements. These options allow for the purchase of 99,500 shares of common stock at a price of $9.14. These options have various vesting schedules from immediate vesting to three years and expire on February 14, 2017.

On February 26, 2007, the Company issued 55,000 warrants at an exercise price of $9.19 per share, to a placement agent in connection with assistance in a potential private placement.

On March 16, 2007, the Company entered into a Securities Purchase Agreement with various accredited investors (the "Buyers"), pursuant to which the Company agreed to sell to the Buyers Series B Convertible Preferred Stock ("Series B Preferred") convertible, upon stockholder approval, into an aggregate of 4,288,712 shares of common stock and Series B Warrants that are exercisable, upon stockholder approval, for an aggregate of 2,144,356 shares of common stock. The Series B Preferred have an initial conversion price of $7.00 per share, and in the event of a conversion at such conversion price, one share of Series B Preferred would convert into one share of common stock. The Series B Warrants have an exercise price of $10.36 per share, the closing bid price on the day prior to the private placement. To the extent, however, that the conversion price of the Series B Preferred or the exercise price of the Series B Warrants is reduced as a result of certain anti-dilution protections, the number of shares of common stock into which the Series B Preferred are convertible and for which the Series B Warrants are exercisable may increase.

The Company also issued to the placement agents in the private placement (the "Agents"), as compensation for their services, Series B Preferred, Series B Warrants, and Series C Warrants. The Agents collectively received Series B Preferred that are convertible, upon stockholder approval, into an aggregate of 290,298 shares of common stock, Series B Warrants that are exercisable, upon stockholder approval, for an aggregate of 221,172 shares of the Company's common stock, and Series C Warrants that are exercisable, upon stockholder approval, for 267,074 shares of the Company's common stock. The Series C Warrants have an exercise price of $11.00 per share, and are also subject to anti-dilution protections that could increase the number of shares of common stock for which they are exercisable. An additional placement agent was granted 55,000 warrants in conjunction with the private placement.

In total, upon stockholder approval, the securities issued in the private placement will be convertible into, or exercisable for, up to approximately 7,211,612 shares of common stock, which amount is subject to adjustment in the event of certain corporate events such as stock splits or issuances of securities at a price below the conversion price of the Series B Preferred or exercise price of the warrants, as the case may be.

On March 19, 2007, the Company issued 20,000 stock options to members of the Scientific Advisory Board of the Company under non-qualified stock option agreements. These options are immediately exercisable and allow for the purchase of 20,000 shares of common stock at a price of $8.82. These options expire on March 19, 2017.

On April 6, 2007, the Company issued 152,500 stock options to officers and consultants under non-qualified stock option agreements. These options are immediately exercisable and allow for the purchase of 152,500 shares of

common stock at a price of $8.36. These options expire on April 6, 2017.

On April 9, 2007, the Company issued 145,000 shares of common stock to various outside consultants under the Plan.

On June 12, 2007, the Company issued 140,000 stock options to members of the Board of Directors of the Company under non-qualified stock option agreements. These options are immediately exercisable and allow for the purchase of 140,000 shares of common stock at a price of $9.40. These options expire on June 12, 2017.

On June 15, 2007, the Company issued 110,000 stock options to various key employees and consultants under non-qualified stock option agreements. These options have various vesting schedules including immediate vesting, up to three year vesting, and vesting upon the company stock price obtaining certain levels. These options allow for the purchase of 110,000 shares of common stock at a price ranging from $9.93 to $17.00. These options expire on June 15, 2017.

On June 21, 2007, the Company issued 3,000 stock options to a consultant under a non-qualified stock option agreement. These options vest over a six month period and allow for the purchase of 3,000 shares of common stock at a price of $10.84. These options expire on June 21, 2017.

On June 27, 2007, the Company issued 30,000 shares of common stock to various outside consultants under the Plan.

Note 4. Commitments and Contingencies

The Company has entered into various agreements with third parties and certain related parties in connection with the research and development activities of its existing product candidates as well as discovery efforts on potential new product candidates. These agreements include costs for research and development and license agreements that represent the Company's fixed obligations payable to sponsor research and minimum royalty payments for licensed patents. These amounts do not include any additional amounts that the Company may be required to pay under its license agreements upon the achievement of scientific, regulatory and commercial milestones that may become payable depending on the progress of scientific development and regulatory approvals, including milestones such as the submission of an investigational new drug application to the FDA, similar submissions to foreign regulatory authorities and the first commercial sale of the Company's products in various countries. These agreements include costs related to manufacturing, clinical trials and preclinical studies performed by third parties.

The Company is also party to three agreements that require it to make milestone payments, royalties on net sales of the Company's products and payments on sublicense income received by the Company. As of June 30, 2007, $50,000 in milestone payments have been made, and an additional $250,000 has been accrued under one of these agreements.

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business. The Company accrues for liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. For all periods presented, the Company is not a party to any pending material litigation or other material legal proceedings.

The Company currently has operating lease commitments in place for facilities in Buffalo, New York and Chicago, Illinois as well as office equipment. The Company recognizes rent expense on a straight-line basis over the term of the related operating leases. The operating lease expenses recognized were $44,334, and $39,216 for the quarters ended June 30, 2007 and 2006, respectively, and the operating lease expense recognized were $87,932 and 71,836 for the six months ended June 30, 2007 and 2006, respectively.

Annual future minimum lease payments under present lease commitments are as follows.

		Operating Leases
2007 (from July 1, 2007 through December 31, 2007)	$	166,240
2008		332,995
2009		347,214
2010		339,155
2011		307,300
2012		144,000

Total	$	1,636,904

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The Company has entered into stock option agreements with key employees, board members and consultants with exercise prices ranging from $0.00 to $17.00. These awards were approved by our Board of Directors. The options expire ten years from the date of grant, subject to the terms applicable in the agreement.

The following tables summarize the stock option activity for the six months ended June 30, 2007 and 2006:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	483,490	$ 2.17
Granted	525,000	$ 9.79
Exercised	69,000	$ 1.28
Forfeited	0	n/a
Outstanding at June 30, 2007	939,490	$ 6.50

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	324,240	$ .82
Granted	116,750	$ 4.50
Exercised	—	n/a
Forfeited	—	n/a
Outstanding at June 31, 2006	440,990	$ 1.79

The Company has entered into warrant agreements with strategic partners, consultants and investors with exercise prices ranging from $1.13 to $11.00. These awards were approved by the Board of Directors. The warrants expire between five and six years from the date of grant, subject to the terms applicable in the agreement. A list of the total warrants awarded and exercised appears below.

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2006	814,424	$ 3.36
Granted	2,687,602	$ 10.40
Exercised	45,258	$ 2.00
Forfeited	—	n/a
Outstanding at June 30, 2007	3,456,768	$ 8.85

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2005	594,424	1.61
Granted	—$	n/a
Exercised	—	n/a
Forfeited	—	n/a
Outstanding at June 30, 2006	594,424	$ 1.61

The Company has entered into employment agreements with three key executives who, if terminated by the Company without cause as described in these agreements, would be entitled to severance pay.

While no legal actions are currently pending, the Company may be party to certain claims brought against it arising from certain contractual matters. It is not possible to state the ultimate liability, if any, in these matters. In management's opinion, the ultimate resolution of any such claim will not have a material adverse effect on the financial position of the Company.

Note 5. Subsequent Events

No material subsequent events have occurred since the balance sheet date of June 30, 2007.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations and other portions of this filing contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, results of our R&D efforts and clinical trials, product demand, market acceptance and other factors discussed in the Company's other SEC filings under the heading "Risk Factors". This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and the related notes included elsewhere in this filing and in our Annual Report on Form 10-KSB for the year ended December 31, 2006.

Overview

General Overview

We commenced business operations in June 2003. We are a drug discovery and development company leveraging our proprietary scientific research and discoveries relating to programmed cell death to treat cancer and protect normal tissues from exposure to radiation and other stresses.

Technology

Our development efforts are based on discoveries made in connection with the investigation of the cell-level process known as apoptosis. Apoptosis is a highly specific and tightly regulated form of cell death that can occur in response to external events such as exposure to radiation, toxic chemicals or internal stresses. Apoptosis is a major determinant of tissue damage caused by a variety of medical conditions including cerebral stroke, heart attack and acute renal failure. Conversely, apoptosis is also an important protective mechanism that allows the body to shed itself of defective cells, which otherwise can cause cancerous growth.

Research has demonstrated that apoptosis is sometimes suppressed naturally. For example, most cancer cells develop resistance to apoptotic death caused by drugs or natural defenses of the human body. Our research is geared towards identifying the means by which apoptosis can be affected and manipulated depending on the need.

If the need is to protect healthy tissues against an external event such as exposure to nuclear radiation, we focus our research efforts on attempting to temporarily and reversibly suppress apoptosis in those healthy tissues, thereby imitating the apoptotic-resistant tendencies displayed by cancer cells. A drug with this effect would also be useful in ameliorating the often severe side effects of anticancer drugs and radiation that cause collateral damage to healthy tissues during cancer treatment. Because the severe side effects of anticancer drugs and radiation often limit their dosage in cancer patients, an apoptosis suppressant drug may enable a more aggressive treatment regimen using anticancer drugs and radiation and thereby increase their effectiveness.

On the other hand, if the need is to destroy cancerous cells, we focus our research efforts on restoring apoptotic mechanisms that are suppressed in tumors, so that those cancerous cells will once again become vulnerable to apoptotic death. In this regard, we believe that our drug candidates could have significant potential for improving, and becoming vital to, the treatment of cancer patients.

Products In Development

Protectans

Protectans are modified proteins of microbes that protect cells from apoptosis, and have a broad spectrum of potential applications. These potential applications include non-medical applications such as protection from exposure to radiation, whether as a result of military or terrorist action or as a result of a nuclear accident, as well as medical applications such as reducing cancer treatment side effects.

Protectan CBLB502

Protectan CBLB502 is our leading radioprotectant molecule in the protectans series. Protectan CBLB502 represents a rationally designed derivative of the microbial protein, flagellin. Flagellin is secreted by *Salmonella typhimurium* and acts as a natural activator of NF-kB. Protectan CBLB502 is administered through intramuscular injection.

Biodefense Applications