FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2005-05-02** | Period of Report: **2003-12-31**
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FILER

PHLO CORP
CIK:**1012130**| IRS No.: **113314168** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10QSB** | Act: **34** | File No.: **000-21079** | Film No.: **05791800**
SIC: **2082** Malt beverages

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

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

For the quarter ended December 31, 2003 Commission File Number 0-21079

PHLO CORPORATION

(Exact name of small business issuer as specified in its charter)

Delaware	11-3314168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6001-21 Argyle Forest Blvd. PMB #117 Jacksonville, Florida	32244-5705
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (973) 691-9012

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 15 (d) of the Securities and 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 |X|

The number of shares outstanding of the issuer's common stock as of April 15, 2005, is 233,418,542.

PHLO CORPORATION AND SUBSIDIARIES

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending December 31, 2003

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PHLO CORPORATION AND SUBSIDARIES
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
December 31, 2003

<TABLE>
<CAPTION>

ASSETS	
<S>	<C>
CURRENT ASSETS	
Cash	$ 31,134
Inventory, at cost	135,390
Prepaid expense	34,392
Total Current Assets	200,916
PROPERTY PLANT & EQUIPMENT, Net	3,397
TOTAL ASSETS	$ 204,313
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES	
Accounts payable	$ 920,732
Accrued expenses and taxes	1,936,484
Notes payable (Note C)	591,500
Revolving credit line (Note B)	99,717
Deferred revenue	12,025
Total Current Liabilities	3,560,458
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY (Note D)	
Preferred stock 15,000,000 shares authorized:	
Series A convertible stock, $0.0001 par value, 500,000 shares authorized, issued and outstanding (Liquidation preferences $100,000)	50
Series B non-convertible stock, none issued and outstanding	--
Series C preferred convertible stock, $0.0001 par value 3,000,000 authorized, 1,333,304 shares outstanding (Liquidation preference $13,333)	133
Series C preferred convertible stock, 15,298 shares subscribed	1
Common stock, $0.0001 par value, 250,000,000 shares authorized 132,695,275 shares issued and outstanding	13,270
Common stock, $0.0001 par value, 12,395,534 shares subscribed	1,238
Additional paid-in capital 9,330,120 Unearned Compensation	(18,350)
Accumulated deficit	(12,682,607)
Total Stockholders' Deficiency	(3,356,145)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 204,313

</TABLE>

The accompanying notes are an integral part of these financial statements.

PHLO CORPORATION AND SUBSIDARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
For the Three and Nine Months Ended December 31, 2003 and 2002

<TABLE>
<CAPTION>

	Three Months 2003	Three Months 2002	Nine Months 2003	Nine Months 2002
<S>	<C>	<C>	<C>	<C>
REVENUES	$ 120,374	$ --	$ 542,823	$ 39,191
COST OF REVENUES	--	38,849	--	134,008
GROSS (LOSS) PROFIT	120,374	(38,849)	542,823	(94,817)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	419,265	288,245	1,124,608	948,573
OPERATING (LOSS)	(298,890)	(327,094)	(581,784)	(1,043,390)
OTHER INCOME (EXPENSES)				
Other Income	--	318,369	--	318,369
Financing Cost	--	(214,205)	--	(214,205)
Interest expense	(18,832)	(32,369)	(57,304)	(101,405)
TOTAL OTHER (EXPENSES) INCOME	(18,832)	71,805	(57,304)	2,759
LOSS BEFORE INCOME TAXES	(317,723)	(255,289)	(639,089)	(1,040,631)
INCOME TAXES	--	--	--	--
NET (LOSS)	$ (317,723)	$ (255,289)	$ (639,089)	$ (1,040,631)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	127,361,942	72,776,800	109,100,905	66,639,831
NET (LOSS) PER SHARE (BASIC AND DILUTED)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.02)

</TABLE>

The accompanying notes are an integral part of these financial statements.

PHLO CORPORATION AND SUBSIDARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)
For the Nine Months Ended December 31, 2003 and 2002

<TABLE>
<CAPTION>

	2003	2002

<S>

CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	$ (639,089)	$ (1,040,631)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation - amortization of deferred compensation	65,148	173,920
Common stock reimbursement to shareholders	118,551	--
Common stock issued for services	15,000	--
Financing cost	--	214,205
Gain on satisfaction of judgment	--	(318,369)
Depreciation and amortization	651	14,418
Changes in operating assets and liabilities:		
Accounts receivable	--	9,093
Inventory	35,739	32,020
Other current assets	(34,392)	(1,669)
Security deposits	--	47,695
Accounts payable	281,153	66,319
Accrued expenses and taxes	160,597	328,436
NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES	3,358	(474,563)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equipment	(2,627)	--
NET CASH (USED IN) FINANCING ACTIVITIES	(2,627)	--
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving note payable	--	150,000
Proceeds from long-term debt	--	80,000
Proceeds from issuance of equity securities	--	214,054
Proceeds from issuance of capital stock subscription	--	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	--	444,054
NET INCREASE (DECREASE) IN CASH	$ 731	$ (30,509)
Cash and cash equivalents, beginning of the period	30,403	93,799
Cash and cash equivalents, end of the period	$ 31,134	$ 63,290
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	$ --	$ --
Income taxes paid	--	--
Amortization of deferred compensation	65,148	13,451

</TABLE>

The accompanying notes are an integral part of these financial statements.

PHLO CORPORATION AND SUBSIDARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the three and nine months ended December 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2004. For further information refer to the consolidated financial statements and footnotes thereto included in the Phlo Corporation and Subsidiaries' annual report on Form 10-KSB for the year ended March 31, 2003.

Business and Basis of Presentation

Phlo Corporation, a Delaware corporation incorporated in December 1995, and its affiliates (hereinafter collectively referred to as the "Company") is a manufacturer of beverages and liquids containing patented and patent-pending biotechnologies. The Company sells its products to distributors, which offer the products for sale in high volume chain stores, such as supermarkets and drug and convenience stores. Additionally, the Company develops liquids with patented or patent-pending payloads for the U.S. Military, agencies of the United Nations, and humanitarian organizations. The Company is positioned as a biotechnology company which is using high volume distribution networks to commercialize its technology. Central to the Company's strategic development plan is the development, acquisition and/or exclusive licensing of proprietary technology, nutraceutical, biotechnological and/or pharmaceutical in nature, which the Company initially plans to convey to consumers through the use of liquid formulations and beverage systems. The Company is focusing its technology acquisition efforts on those technologies related to preventing or ameliorating cancer, reducing the effects of aging, and enhancing cognition and personal performance. The Company is currently conducting discussions with major companies related to the distribution of the Company's products or joint ventures pertaining to the Company's technology and products related thereto.

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries and affiliates.

Stock Based Compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended March 31, 2003 and will adopt the interim disclosure provisions for its financial reports for the subsequent periods. The Company does not have any awards of stock-based employee compensation issued and outstanding at December 31, 2003.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-- an amendment of ARB No. 43, Chapter 4". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate

Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152). This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

On December 16, 2004, the FASB published SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter.

On December 16, 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

Reclassifications

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

NOTE B - REVOLVING CREDIT FACILITY

In June, 2002, the Company closed a revolving credit facility with a one-year term which provides for advances of up to a maximum principal amount of $250,000, at the option of the lender, at an interest rate of 10% per annum, with each advance payable within 30 days. An initial advance was made in the amount of $150,000 and, in February 2003, a second advance was made in the amount of $70,000. Repayment of advances under the facility and a fee of $150,000 charged by the lender are secured by the Company's assets and are guaranteed by two officers of the Company. In connection with securing the repayment of the two advances under this facility, the Company issued a total of

11,700,000 shares of Common Stock. The Company did not repay the advances by the maturity date. As a result thereof, the lender has exercised its rights provided by the loan documents to sell shares of stock that were pledged as collateral for the repayment of advances pursuant to the credit facility. As of December 31, 2003, the sale of collateral has reduced the outstanding principal to $99,717 (see Note G-Subsequent Events).

NOTE C - NOTES PAYABLE

Notes payable as of December 31, 2003 consist of the following:

<TABLE>
<CAPTION>

<S>	<C>
Note payable with interest rate of 15% per annum. The note matured on May, 2003. Subsequent to the date of the financial statements, the holder agreed to extend the maturity date of the note to June 30, 2006.	$ 80,000
Note payable with interest at a rate of 10%. The note matured on December 31, 2000, when principal and unpaid interest were due. In consideration of this loan and two prior bridge loans, the Company agreed to issue shares of the Company's common and convertible preferred stock to the holder representing approximately 200,000 shares of common stock on a fully converted basis. Subsequent to the date of the financial statements, the holder agreed to extend the maturity date of the note to June 30, 2006.	104,000

</TABLE>

NOTE C - NOTES PAYABLE (Continued)

<TABLE>
<CAPTION>

<S>	<C>
Note payable in the original principal amount of $25,000 with interest at a rate of 10% per annum. The Note matured on July 2, 1999, when principal and unpaid interest was due. The note is currently in default, although partial payment has been made subsequent to the maturity date. No action has been taken against the Company to enforce the note. In connection with the note, the Company issued a warrant to purchase 5,000 shares of common stock at an exercise price of $0.04 per share.	17,500
Note payable with interest accruing at a rate of 10%. Principal and interest were due in February 2001. In conjunction with this financing, the Company issued a warrant to purchase 200,000 shares of common stock at a exercise price of $0.50 per share. Subsequent to the date of the financial statements, the holder agreed to extend the maturity date of the note to June 30, 2006.	100,000
Note payable with interest at a rate of 10% per annum. Principal and interest were due in November 2000. In conjunction with this financing, the Company issued a warrant to purchase 300,000 shares of common stock at a exercise price of $0.50 per share. The Company, at its option, may pay the Note in common stock or equivalent. The Company has notified the holder that it has elected to pay the principal and interest due under the note by the issuance of 136,612 shares of common stock.	150,000
Note payable with interest accruing at a rate of 10% per annum. Principal and interest were due in June 2001. In conjunction with this financing, a warrant to purchase 50,000 shares of common stock at an exercise price of $0.50 per share is issuable to this holder. The note holder has agreed to extend the maturity date of the note to June 30, 2006 and in connection therewith, the Company has agreed to issue a warrant to purchase 25,000 shares of common $50,000 stock at an exercise price of $0.50 per share.	50,000
Note payable in the original principal amount of $100,000, with an interest rate of 10% per annum. Principal and interest were due in July 2001. $50,000 of the loan was repaid in May, 2001. In conjunction with this financing, a warrant to purchase 100,000 shares of common stock at an exercise price of $0.50 per share is issuable to the holder. An additional warrant to purchase 12,500 shares of	

the Common Stock at the same exercise price is issuable as a result of the Company's exercising its option to extend to October 2001 the maturity date of the note with respect to $50,000 of principal and all of the interest payable pursuant to the note. Subsequent to the date of the financial statements, the holder agreed to extend the maturity date of the note to June 30, 2006.	50,000
In April, 2001, the Company was loaned $40,000. A promissory note has not yet been issued, as that amount was only a partial funding of the transaction. The note will provide an interest rate of 10% and a term of 120 days. A warrant will be issuable in conjunction with this financing, however, the amount of shares of common stock purchasable pursuant to the warrant will be determined once the full amount of the financing is established.	40,000
Total	$ 591,500
Less: current portion	(591,500)
Long-term portion	$ --

</TABLE>

NOTE D - CAPITAL STOCK

The Company has authorized 15,000,000 shares of preferred stock, with 500,000 shares designated as Series A convertible preferred stock with par value of $.0001 per share; 500,000 shares designated as Series B non-convertible preferred stock with par value of $0.0001 per share; and 3,000,000 shares designated as Series C convertible preferred stock with par value of $.0001 per share. The Company also has authorized 250,000,000 shares of common stock with par value $0.0001 per share. As of December 31, 2003, the Company has 500,000 shares of Series A convertible preferred stock, 1,333,304 shares of Series C convertible preferred stock, and 132,695,275 shares of common stock issued and outstanding. The Company has no Series B non-convertible preferred stock issued and outstanding at December 31, 2003.

In April, 2003, the Company issued 66,667 shares of Common Stock to fulfill its obligations pursuant to an existing agreement.

In April through June, 2003, the Company issued 938,761 shares of Common Stock which were previously subscribed.

NOTE D - CAPITAL STOCK (continued)

In the quarter ended June 30, 2003, the Company issued 9,946,667 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

In July, 2003, the Company issued 666,667 shares of Common Stock in order to fulfill its obligations pursuant to an agreement.

In the quarter ended September 30, 2003, the Company issued 25,333,333 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

In the quarter ended December 31, 2003, the Company issued 12,000,000 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

NOTE E - STOCK WARRANTS AND OPTIONS

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash compensation for services performed or non-compensatory warrants in connection with financing activities.

<TABLE>
<CAPTION>

Exercise Prices	Warrants Outstanding Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Warrants Exercisable Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 2.00	50,000	3.00	$ 2.00	50,000	$ 2.00
0.10~0.50	2,841,619	4.00	0.34	2,846,619	0.34
0.09	1,000,000	7.00	0.09	1,000,000	0.09
0.04-0.058	2,605,000	5.00	0.058	2,600,000	0.058
0.03	33,629,487	5.00	0.03	33,629,487	0.03
	40,126,106	4.98	$ 0.06	40,126,106	$ 0.06

</TABLE>

Transactions involving warrants are summarized as follows:

	Number of Options	Weighted Average Price Per Share
Outstanding at April 1, 2001	8,291,604	$ 0.15
Granted	33,426,265	0.04
Exercised	(5,870,426)	0.13
Cancelled or expired	--	--
Outstanding at March 31, 2002	35,847,443	$ 0.05
Granted	5,280,000	0.06
Exercised	--	--
Cancelled or expired	(1,001,337)	0.50
Outstanding at March 31, 2003	40,126,106	$ 0.06
Granted	--	--
Exercised	--	--
Cancelled or expired	--	--
Outstanding at December 31, 2003	40,126,106	$ 0.06

The Company did not grant any compensatory warrants to non-employees during the six month period ended December 31, 2003 and 2002. Amortization of deferred compensation for previously granted warrants issued in exchange for prepaid services fees amounted $65,148 and $13,451 for the nine month periods ended December 31, 2003 and 2002, respectively.

NOTE E - STOCK WARRANTS AND OPTIONS (continued)

Stock Options

As of February 19, 2003, the Company had determined that the prior management did not validly (under the applicable provisions (including Section 157) of the General Corporation Law of the State of Delaware) issue any of the options to purchase an aggregate of 1,613,333 shares of common stock which it had purportedly issued, and that, pursuant to Delaware law, these options are void. Therefore, the Company has removed such options from its records and shall not issue any shares of Common stock under such void options.

NOTE F - COMMITMENTS AND CONTINGENCIES

Loan Guarantee

Phlo Corporation is a guarantor of a loan obtained by an unrelated party in connection with a purchase agreement. In addition, payments of the loan are secured by the Company's assets. The amount outstanding on the loan at December 31, 2003 was approximately $65,000. Payment of the loan is secured by shares of common stock owned by the unrelated party. The holder of the loan has initiated legal action against the primary obligor and Phlo Corporation as guarantor, claiming outstanding principal, interest and late fees in the aggregate amount of approximately $105,000. The Company believes that it no longer has any liability under the guaranty as a result of the actions or inactions of the lender, including the lender's failure to mitigate its damages by selling collateral pledged by the primary obligor at a time when the value of such collateral exceeded all amounts due.

Litigation

The Securities and Exchange Commission instituted public administrative and cease and desist proceedings against Phlo Corporation ("Phlo"), its President James B. Hovis, and its Executive Vice President, Anne P. Hovis, on April 21, 2005, alleging violations by Phlo Corporation related to certain transfer agent regulations and related to the late filing of its required periodic reports. (See Part II, Item 1.)

NOTE G - SUBSEQUENT EVENTS

Financing

In June, 2004, an additional advance was made under the Company's revolving credit facility in the amount of $100,000. In conjunction therewith, the Company issued 2,000,000 shares of Common Stock which serve as collateral to secure repayment of advances made to the Company under the facility and the meeting of all obligations of the Company under the facility loan documents. Also in connection with such advance, the Company granted to the Lender the option, after the expiration of a period of one year from such advance, to take title to 1,785,715 shares (or any portion thereof) of such stock collateral.

In the quarter ended June 30, 2004, the Company issued 3,500,000 shares of Common Stock in exchange for the conversion by a debt holder of $46,000 of accrued interest and the waiver of a financing fee of $150,000 owed in connection with a prior advance.

In January, 2005, an additional advance was made under the Company's revolving credit facility in the amount of $40,000. In conjunction therewith, the Company issued 3,500,000 shares of Common Stock which serve as collateral to secure repayment of advances made to the Company under the facility and the meeting of all obligations of the Company under the facility loan documents. Also in connection with such advance, the Company granted to the Lender the option, after the expiration of a period of one year from such advance, to take title to 1,212,121 shares (or any portion thereof) of such stock collateral.

In April, 2005, an additional advance was authorized under the Company's revolving credit facility of up to $150,000, $90,000 of which has been advanced as of the date of this filing. In conjunction therewith, the Company issued 13,700,000 shares of Common Stock which serve as collateral to secure repayment of advances made to the Company under the facility and the meeting of all obligations of the Company under the facility loan documents. Also in connection with such advance, the Company granted to the Lender the option, after the expiration of a period of one year from such advance, to take title to 4,600,000 shares (or any portion thereof) of such stock collateral; agreed to deliver to the Lender, until such advance has been repaid, net proceeds received by the Company generated by the sale of its rehydration beverage of up to $50,000; and agreed to increase the interest rate with respect to the current advance and the outstanding principal balance on prior advances from 10% to 12%.

NOTE G - SUBSEQUENT EVENTS (continued)

Equity

In the quarter ended March 31, 2004, the Company issued 18,666,667 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

In the quarter ended March 31, 2004, in consideration of $505,000, the Company issued 43,766,667 shares of Common Stock.

In June, 2004, in connection with a financing and in consideration of guarantees and supplying of shares of stock as collateral in connection with financings, the Company issued 1,000,300 shares of Common Stock to officers of the Company.

In the quarter ended June 30, 2004, in consideration of $300,000, the Company agreed to issue 4,400,000 shares of Common Stock, 4,100,000 shares of which have been issued to date.

In September 2004, the Company issued 3,100,000 shares of Common Stock to a shareholder upon his conversion of 31,000 shares of Series C Convertible Preferred Stock.

In October 2004, in consideration of $50,000, the Company agreed to issue 1,333,333 shares of Common Stock, none of which have been issued to date.

In the quarter ended March 31, 2005, in consideration of $35,000, the Company issued 1,750,000 shares of Common Stock.

In the quarter ended March 31, 2005, in connection with a financing and in consideration of guarantees and supplying of shares of stock as collateral in connection with financings, the Company issued 1,750,525 shares of Common Stock to officers of the Company.

In the quarter ended March 31, 2005, the Company issued 7,500,750 shares of Common Stock in connection with the provision of services related to the further development and enhancement of its intellectual property.

During February through April, 2005, in consideration of $60,000, the Company issued 4,000,000 shares of Common Stock and agreed to issue warrants to purchase 250,000 shares of Common Stock at an exercise price per share of $0.02.

In April 2005, the Company issued 454,545 shares of Common Stock previously subscribed.

In April 2005 in consideration for extended payment terms relating to a Company obligation, the Company agreed to extend the expiration date of a warrant granted the recipient from March 2005 to 2007. Additionally, the numbers of shares of the Company's common stock purchasable pursuant to the warrant were increased from 200,000 shares to 750,000 shares and a decrease in the warrant exercise price from $0.05 to $0.03.

In the quarter ending June 30, 2005, in connection with a financing and in consideration of guarantees and supplying of shares of stock as collateral in connection with financings, the Company issued 6,852,055 shares of Common Stock to officers of the Company.

Cash Dividend

In September, 2003, the Company announced that the necessary actions had been authorized for the payment by one of the operating companies in the Company's corporate group of a cash dividend to shareholders of the Company in the form of a pro rata interest in five percent (5%) of any qualifying net revenues generated by the future sales of the Company's oral rehydration solution products to the United States Military ("Net Revenue Interest").

The Net Revenue Interest is payable to the beneficial owners of record of the Company's common stock as the October 17, 2003 (the "Record Date"), on a quarterly basis, during a period of five years from the initial cash distribution. The pro rata share of the Net Revenue Interest of the Company's shareholders shall be based on their beneficial ownership of the Common Stock as of March 15, 2004 (the "Certificate Exchange Date"). The dividend shall be paid out of funds that are legally available thereof in accordance with applicable law.

Shareholders were required to exchange certificates representing their Common Stock for certificates which indicate their eligibility to receive a pro rata share of the Net Revenue Interest (the "NRI Certificates") so long as the holder owns such shares. The Net Revenue Interest is proportionately reduced as and if shareholders sell or transfer the shares represented by the NRI Certificates.

To date, no cash dividends have been paid, and no assurances can be made with respect to whether such orders from the United States Military will actually materialize and with respect to the size or value of any such orders which are actually received.

Item 2.

PHLO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

SAFE HARBOR STATEMENT

The Company has made, and may continue to make, various forward-looking statements with respect to its financial position, business strategy, and plans and objectives of management. Such forward-looking statements are identified by the use of forward-looking phrases such as "anticipates", "intends", "expects", "plans", "believe", "estimates", or words or phrases of similar import. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, and the statements looking forward beyond 2003 are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from those anticipated by the forward-looking statements.

The Company's forward-looking statements represent its judgment only on the dates such statements are made. By making any forward-looking statements, the Company assumes no duty to update them to reflect new, changed, or unanticipated events or circumstances.

OVERVIEW

The following discussion of the Company's financial condition as of December 31, 2003 and results of operations for the three and nine months ended December 31, 2003 and 2002 includes Phlo Corporation and its affiliates (collectively, the "Company") and should be read in conjunction with the condensed consolidated financial statements and notes appearing elsewhere in this 10-QSB.

RECENT DEVELOPMENTS

The Company was granted a patent on its VEP/PPC technology. The Company has licensed VEP/PPC on an exclusive basis, worldwide, for all uses including nutraceutical, biotechnological, and pharmaceutical. The VEP/PPC technology has been shown to be effective in repairing cell damage in all human tissues and in protecting cells from damage related to oxidative stress and exposure to toxins. Cell injury related to oxidative stress is associated with aging, cancer, emphysema, heart disease, Alzheimer's disease, alcoholic liver disease, and drug-induced tissue injury. The Company believes that, with clinical trials, VEP/PPC may have applications for treating such diseases.

During the fiscal quarter ended June 30, 2003, further tests were completed by some of the world's top scientists in the rehydration field confirming that Aquis is superior to current solutions formulated in accordance with the World Health Organization's most advanced specifications. Tests were conducted by a team of scientists at the International Center for Diarrheal Disease Research, Bangladesh ("ICDDRB") and demonstrate that the use of Aquis results in superior and faster absorption of both electrolytes and water as compared with the use of other leading oral rehydration solutions in the world, including those based on the World Health Organization's most advanced specifications. These results have been presented at two of the most highly regarded conferences in the world in the field of rehydration, the American Gastroenterological Association meeting in New Orleans, May 15, 2004 and the 10th Asian Conference on Diarrhoeal Diseases and Nutrition (10th ASCODD) in Dhaka, Bangladesh (December, 7-9 2003). Additionally, Aquis has a superior taste which is conducive to increased fluid intake by those drinking it. The ICDDRB pioneered the discovery of oral rehydration solutions and recently received the Gates Award for Global Health in recognition of this contribution.

During the fiscal quarter ended December 31, 2003, the Company continued its marketing efforts with respect to its recently-commercialized Oesis Personal

Performance Spray Products. Oesis Personal Performance Spray Products contain the Company's patented Vitamin E phosphate/polyenylphosphatidylcholine ("VEP/PPC") preparation and the Company's biologically active micro-particle delivery system, delivered through 1-ounce sprays. Oesis Spray Products provide cellular membrane repair and protection from toxicants while creating focus and mental alertness without the secondary depression. Although, during the prior quarter, the Company gained approval for distribution of its Oesis Personal Performance Spray Products throughout the Eastern United States, in a distribution system involving over 15,000 customers in the United States and Canada, the Company determined that the technology contained in Oesis would be better suited for purchasers more concerned about maintaining top levels of performance for extended periods, such as the U.S. Military.

In May, 2001, Coca-Cola Hondo, Inc. and its affiliates (Coca-Cola Hondo)(which signed an agreement with the Company in December 2000 to sell the Company's products in the entire Coca-Cola Hondo distribution territory consisting of Illinois, Wisconsin, Michigan, and parts of Indiana, Ohio, Pennsylvania and New York) and Coca-Cola Enterprises (CCE), the master distributor on a global basis of all of The Coca-Cola Company's beverage products, announced the acquisition of Coca-Cola Hondo by CCE. On a short-term basis, the Coca-Cola Hondo acquisition by CCE caused the full execution of the Company's launch of its ZO - Vital Cell Defense beverage line to be suspended indefinitely, and the Company's revenue was significantly adversely affected as a result thereof. Initially, CCE requested that the Company change the packaging of its beverages to plastic bottles to enable CCE to sell the Company's beverages in all CCE distribution segments (including in vending machines) and desired to re-launch the beverage line in the new plastic bottles. Extended negotiations by the Company with CCE and The Coca-Cola Company (CCC) regarding a joint effort, followed by a major management overhaul at CCC, prolonged the

delay. CCE has recently requested that the Company propose a joint venture between the Company and CCC to be sponsored by CCE involving the Company's beverage technologies and products. The manufacture and sale of ZO will remain suspended pending this process.
The Company has no assurances that any joint venture will result from such a proposal or, if such a transaction were consummated with CCC, of the success of the venture.

On July 10, 2003, the Company announced its intention to spin-off the portion of its business that involves the development and commercialization of biotechnologies capable of being incorporated into primarily liquid products (for oral consumption) and foods, the manufacturing and marketing of products resulting therefrom, and the licensing or sublicensing of other biotechnologies. The Company anticipates that the spin-off will be accomplished by the distribution to Company shareholders of capital stock of an affiliated company. In connection with its intention, the Company has engaged in efforts regarding the identification of suitable intellectual property, the evaluation thereof, and the valuation thereof. The Company still intends to pursue the spin-off process when the required preliminary steps are completed.

The Company believes that the proposed spin-off will provide greater value to shareholders by creating two public corporate entities that focus on separate scientific platforms and businesses. In addition, the spin-off will allow the management of each company to better focus on the individual businesses of the respective companies and facilitate the establishment of executive compensation that is more closely tied to the performance of each individual company's results. Finally, the Company believes that the proposed spin-off will enhance each company's access to financing.

RESULTS OF OPERATIONS

The Company's revenues were $120,374 for the three month period ended December 31, 2003, as compared to no revenues for the three month period ended December 31, 2002. For the nine month period ended December 31, 2003, the Company's revenues increased by $503,632 to $542,823, as compared to revenues of $39,191 for the nine month period ended December 31, 2002.There were no cost of sales for the three and nine month periods ended December 31, 2003, as compared to $38,849 and $134,008 for the three and nine month periods ended December 31, 2002, as the revenue generated during the three and nine month periods ended December 31, 2003, resulted from the receipt of product distribution rights fees rather than from product sales. The selling, general and administrative expenses for the three and nine month periods ended December 31, 2003 were $419,265 and $1,124,608,respectively, as compared to $288,245 and $948,573 for the comparable three and nine month periods during 2002. The Company's operating loss was $298,891 and $581,785 for the three and nine month periods ended December 31, 2003, a decrease of 9% and 44%, as compared with an operating loss of $327,094 and $1,043,390 for the comparable periods ended December 31, 2002.

The Company focused its efforts during the period on marketing its newly-commercialized Oesis Personal Performance Spray Products, which were initially manufactured in March 2003, and in developing its marketing plan and establishing key marketing relationships with respect to its Aquis Rapid Response Rehydration beverages.

The Company's proprietary biotechnology base (including its commercialization and manufacturing capabilities related thereto), the products generated therefrom, and the access to major markets as a result thereof represent the core of the Company's business plan, which emphasizes the building of major, long-term fundamental value. Although the process of executing this business plan requires significant time, the Company should be able to produce significantly greater positive operating results and greater shareholder value than would otherwise be possible.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficit increased by $400,965 during the nine month period ended December 31, 2003, to $3,359,542. In addition, the Company's Stockholders' Deficiency increased from $2,957,156 to $3,356,145 during the same nine month period.

During the fiscal year ending March 31, 2005 and beyond, the Company is taking steps to reduce or eliminate the Stockholders' Deficiency and to create a positive working capital position. The Company believes it is more likely than in prior years to raise substantial equity funds as a result of its expanded distribution base, the prospects for national and global distribution of its products and joint venture activities with major international entities, the existence now of three product lines containing commercialized biotechnology, the prospects for numerous additional products based on the Company's biotechnology foundation, and significantly increased scientific and commercialization capabilities. Finally, the Company has taken steps to convert certain existing debts into equity and will continue to pursue these steps.

While the Company has raised sufficient capital to meet its operating requirements in the past, additional financing is required in order to meet such operating requirements in the future. The Company can give no assurances that the necessary funding will be completed or, if completed, on terms favorable to the Company.

There can be no assurance that management's plans will be realized and therefore, until the present conditions referred to above are either removed or substantially improved, there is substantial doubt about the Company's ability to continue as a going concern.

The Company's independent certified public accountants have stated in their report included in the Company's March 31, 2003 Form 10-KSB, that the Company has incurred operating losses in the last two years, and that the Company is dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about the Company's ability to continue as a going concern.

Impact of Inflation

The Company does not believe that inflation has had a material adverse effect on sales or income during the past periods. Future increases in supplies or other operating costs could adversely affect the Company's operations; however, the Company believes it could increase prices to offset increases in costs of goods sold or other operating costs.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Item 3.

CONTROLS AND PROCEDURES

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

Evaluation of Disclosure and Controls and Procedures. As of the end of the period covered by this Quarterly Report, the Company conducted an evaluation, under the supervision and with the participation of its chief executive officer and chief financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that its disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls Over Financial Reporting. There was no change in the Company's internal controls, which are included within disclosure controls and procedures, during its most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Securities and Exchange Commission instituted public administrative and cease and desist proceedings against Phlo Corporation ("Phlo"), its President James B. Hovis, and its Executive Vice President, Anne P. Hovis, on April 21, 2005, alleging violations by Phlo Corporation related to certain transfer agent regulations and related to the late filing of its required periodic reports.

More specifically, the Division of Enforcement has alleged the violation by Phlo of Sections 17A(d)(1) and 17(b)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rules 17Ad-2 (which requires transfer agents to turnaround within three business days of receipt at least 90% of all routine items received for transfer during a month) and 17Ad-5 (which requires transfer agents to respond within five business days to any written inquiry regarding the status of items presented for transfer within the preceding six months) thereunder. The Division of Enforcement also alleged that Anne Hovis aided and abetted such violations.

The Division also alleges that Phlo violated Section 13(a) of the Exchange Act, and Rules 13a-1 and 13a-13 thereunder (which require the filing of annual and quarterly reports with the SEC), and alleged that James Hovis aided and abetted such violations.

According to the SEC Order initiating the proceeding, a hearing will be held to determine whether the allegations are true; to provide Phlo and James and Anne Hovis with an opportunity to establish defenses thereto; and to determine what, if any, remedial sanctions should be imposed, which could possibly include the imposition of civil penalties, the issuance of cease and desist orders, and the revocation or suspension for a period not to exceed 12 months of the registration of Phlo's securities.

The Company disputes all allegations made by the Division of Enforcement (except for the fact that Phlo did not timely make certain periodic filings). However, the Company expects to be completely current in its financial reporting prior to a hearing on the merits of this matter. The

Company has also provided to the SEC evidence of the existence of extraordinary circumstances related to its former outside auditing firms resulting in Phlo not being able to maintain timely financial filings. As a result of these factors, the Company believes that it will be able to resolve this matter prior to a proceeding on the merits. However, if the Company is unable to resolve this matter, it will vigorously defend all allegations.

Finally, the Company can make no assurances with respect to the outcome of this matter.

The Company is a party to certain other legal matters arising in the ordinary course of business. Management believes the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period covered by this report, we issued shares of our common stock as follows:

In April, 2003, the Company issued an aggregate of 66,667 shares of Common Stock to fulfill its obligations pursuant to an existing agreement.

In April through June, 2003, the Company issued 938,761 shares of Common Stock which were previously subscribed.

In the quarter ended June 30, 2003, the Company issued 9,946,667 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

In July, 2003, the Company issued 666,667 shares of Common Stock in order to fulfill its obligations pursuant to an agreement. In the quarter ended September 3, 2003, the Company issued 25,333,333 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

In the quarter ended December 31, 2003, the Company issued 12,000,000 shares of Common Stock in order to fulfill its obligations pursuant to an existing agreement.

ITEM 6. EXHIBITS

Signatures

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

Phlo Corporation

May 2, 2005 By: /s/ James B. Hovis

James B. Hovis
President and Chief Executive Officer

CERTIFICATIONS

I, James B. Hovis, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Phlo Corporation and Subsidiaries;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. designed such disclosure controls and procedures 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 quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or

in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 2, 2005

/s/ James B. Hovis

James B. Hovis
Chief Executive Officer
Principal Financial Officer

CERTIFICATIONS

Certificate 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 Quarterly Report of Phlo Corporation and Subsidiaries (the "Company") the Company on Form 10-QSB for the quarter ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James B. Hovis, Chief Executive Officer, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, 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 presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2005

/s/ James B. Hovis

James B. Hovis
Chief Executive Officer
Principal Financial Officer