FORM 10QSB

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

Filing Date: **2006-05-08** | Period of Report: **2006-03-31**
SEC Accession No. 0001019687-06-001080

FILER

CALBATECH INC

CIK:**1156293**| IRS No.: **860932112** | State of Incorp.:**NV** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-33039** | Film No.: **06816952**
SIC: **8734** Testing laboratories

Mailing Address
15375 BARRANCA PARKWAY
I-101
IRVINE CA 92618

Business Address
15375 BARRANCA PARKWAY
I-101
IRVINE CA 92618
9494509910

U.S. 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 MARCH 31, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-33039

CALBATECH, INC.

(Exact name of Company as specified in its charter)

Nevada	86-0932112
(State or jurisdiction of incorporation Identification No.)	(I.R.S. Employer or organization)

15375 Barranca Parkway, Suite I-101, Irvine, CA 92618
(Address of principal executive offices) (Zip Code)

Company's telephone number: (949) 450-9910

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 Par Value

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of March 31, 2006, the Company had 95,918,110 shares of common stock issued and outstanding.

Part I - Financial Information

Item 1. Financial Statements

<TABLE>
<S> <C>

Item 1. Financial Statements

CALBATECH, INC.
CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2006	Audited December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash	$ 165,898	$ 301,143
Accounts receivable, net of allowance of $26,284 and $27,982, respectively	142,889	158,487
Inventory	189,703	216,130
Prepaid expenses	41,377	32,244
Total current assets	539,867	708,004
Fixed assets, net	155,934	160,876
Other assets:		
Prepaid interest	20,680	49,911
Unamortized financing costs, net of accumulated amortization and write off of $224,884 and $177,296, respectively	72,116	119,704
Total other assets	92,796	169,615
	$ 788,597	$ 1,038,495
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 795,293	$ 860,690
Capital leases payable	29,920	16,511
Notes payable - banks	19,892	18,280
Notes payable, including $17,295 to related parties	555,906	573,506
Settlement liability	583,631	572,188
Convertible notes payable	63,782	76,028
Total current liabilities	2,048,424	2,117,203
Long term debt, less current maturities:		
Capital leases payable	43,467	59,605
Derivative liability related to convertible debentures	1,527,794	3,939,256
Warrant liability related to convertible debentures	981,954	364,299
Note payable to banks	28,903	31,361
Convertible notes payable	263,739	178,632
Total long term liabilities	2,845,857	4,573,153
Total liabilities	4,894,281	6,690,356
DEFICIENCY IN STOCKHOLDERS' EQUITY		

Preferred stock, par value $0.001 per share; 25,000,000 shares authorized; 1,250,000 shares issued and outstanding as of March 31, 2006 and December 31, 2005	1,250	1,250
Common stock, par value $0.001 per share; 200,000,000 shares authorized, 95,918,110 and 76,712,132 shares issued and outstanding as of March 31, 2006 and December 31, 2005, respectively	95,918	76,712
Common stock subscription	169,000	169,000
Additional paid in capital	6,132,660	5,783,228
Treasury stock, at cost	(87,647)	(87,647)
Accumulated deficit	(10,416,865)	(11,594,404)
Total deficiency in stockholders' equity	(4,105,684)	(5,651,861)
	$ 788,597	$ 1,038,495

CALBATECH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three months ended March 31, 2006	2005
REVENUES:		
Net sales	$ 412,567	$ 314,820
Cost of sales	(195,095)	(81,515)
Gross profit	217,472	233,305
OPERATING EXPENSES:		
Selling and administrative	568,637	470,425
Depreciation and amortization	6,053	7,018
Total operating expenses	574,690	477,443
LOSS FROM OPERATIONS	(357,218)	(244,138)
Other income	4,700	5,378
Unrealized gain on adjustment of derivative and warrant liability to fair value of underlying securities	1,793,807	--
Interest expense, net	(263,750)	(31,690)
Net income (loss) before income taxes	1,177,539	(270,450)
Income taxes	--	--
NET INCOME (LOSS)	$ 1,177,539	$ (270,450)
Net income (loss) per common share-basic	$ 0.01	$ (0.01)
Net income (loss) per share-fully diluted	$ 0.01	$ (0.01)
Weighted average number of common shares outstanding-basic	86,669,385	35,021,609
Weighted average number of common shares outstanding-fully diluted	133,071,979	35,930,700

CALBATECH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Three months ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,177,539	$ (270,450)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments for depreciation and amortization	11,437	12,721
Common stock issued or subscribed in connection with services rendered	37,750	223,302
Common stock issued for officer compensation	207,163	--
Common stock issued in settlement of debt	123,725	72,000
Accretion of convertible notes payable	85,107	--
Unrealized gains on adjustment of derivative and warrant liability to fair value of underlying securities	(1,793,807)	--
Amortization and write off of financing costs	47,588	--
Amortization of prepaid interest	29,231	--
(Increase) decrease in:		
Accounts receivable	15,598	(7,683)
Inventory	26,427	(144,392)
Prepaid expenses	(9,133)	12,309
Increase (decrease) in:		
Accounts payable and accrued expenses	(65,397)	25,400
Net cash used in operating activities	(106,772)	(76,793)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(6,495)	(450)
Net cash used in investing activities	(6,495)	(450)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	--	27,273
Advances from (to) shareholders	--	47,000
Payment on notes payable and capital leases, net	(21,978)	(9,550)
Net cash used in financing activities	(21,978)	64,723
Net decrease in cash and cash equivalents	(135,245)	(12,520)
Cash and cash equivalents at beginning of period	301,143	38,895
Cash and cash equivalents at end of period	$ 165,898	$ 26,375
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 2,747	$ 15,564
Cash paid during the period for taxes	--	--
Unrealized loss on adjustment of derivative and warrant liability to fair value of underlying securities	$(1,793,807)	$ --
NON - CASH FINANCING ACTIVITIES:		
Common stock issued in exchange for services	$ 244,913	$ 223,302

</TABLE>

CALBATECH, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. The unaudited consolidated financial statements should be read in conjunction with the consolidated December 31, 2005 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB.

Business and Basis of Presentation

Calbatech Inc, (formerly Traffic Technology Inc.) ("Company") was organized on April 29, 2002 under the laws of the state of Nevada. The Company is focused on incubating life science based companies that are developing next generation products and technologies.

Company acquired Molecula Research Laboratories, LLC as a subsidiary in October, 2003. On December 31, 2005, Molecula Research Laboratories, LLC was dissolved in the state of Virginia. Calbatech incorporated Molecula, Inc. in the state of Nevada. Products and intellectual property of the dissolved LLC were transferred to Molecula, Inc in the state of Nevada. Molecula develops and sells numerous research reagents for cell transfection, DNA and RNA purification, protein expression, gene expression analysis and other innovative and fundamental products.

The Company also through its subsidiary - KD Medical, manufactures and distributes microbiological culture medias and other research regents. KD Medical's products are used in genetic engineering, drug discovery, molecular biology labs and biopharmaceutical production.

The Company also through its subsidiary - LifeStem, Inc is positioning itself to become a leading supplier of "Cellular Logistics" by providing services and technologies to facilitate the efficient acquisition and delivery of purified adult stem cells, development of stem cell delivery devices for clinical applications and clinical applications of specific stem cell based therapies.

>From its inception through the date of these financial statements the Company has incurred significant operating expenses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. As of March 31, 2006, the Company has accumulated losses of $10,416,865.

CALBATECH, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Molecularware, Inc., KD Medical and LifeStem, Inc. and its majority wholly owned subsidiary, Molecula, Inc .and that of Traffic Technology, Inc. with whom the Company merged. All significant inter-company transactions and balances have been eliminated in consolidation.

Acquisitions and Capital Restructure

On January 3, 2003, the Company completed an Agreement and Plan of Exchange ("Agreement") with Traffic Technology, Inc. ("Traffic"). As a result of the acquisition, there was a change in control of the public entity, and Traffic Technology, Inc. changed its name to Calbatech, Inc. For accounting purposes, the Company shall be the surviving entity. The transaction is accounted for using the purchase method of accounting. The total purchase price and carrying value of net assets acquired of Traffic was $200,000 of which $100,000 was paid

in cash and $100,000 was paid in notes payable. The results of operations of Traffic subsequent to the Agreement are included in the Company's consolidated statement of losses.

Effective with the Agreement, all previously outstanding common stock, preferred stock, options and warrants owned by the Company's stockholders were exchanged for an aggregate of 5,766,591 shares of Traffic's common stock and a common stock subscription of 3,939,882 shares. The value of the stock that was issued was the historical cost of Traffic's net tangible assets, which did not differ materially from their fair value. The value of the 1,199,491 shares of common stock that were retained by Traffic's stockholders was based on the par value of $0.001 per share of Traffic's common stock. In accordance with SFAS No. 141, Calbatech is the acquiring entity.

The total consideration paid was $257,666 and the significant components of the transaction are as follows:

Common stock retained by traffic shareholders	$ 11,997
Excess of assets acquired over liabilities assumed	(211,997)
Treasury stock assumed	(57,666)
Goodwill impaired	$(257,666)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

On July 1, 2003, the Company acquired Molecularware, Inc., as a wholly owned subsidiary. Molecularware, Inc. was acquired by issuance of common stock subscriptions totaling 300,000 shares valued at the time acquisition at $137,700. In addition, the Company issued 12% convertible debt totaling $600,000 as settlement of the outstanding liabilities of Molecularware, Inc. The convertible debt can be converted in to shares of Company's common stock within thirty days after the effective date a registration statement is filed with the Securities and Exchange Commission ("SEC") at a conversion price equal to eighty percent of the closing price of the Company's common stock on the date of the conversion.

The total consideration paid was $713,828 and the significant components of the transaction are as follows:

Common stock issued	$137,700
Convertible debt issued	600,000
Excess of assets acquired over liabilities assumed	(23,872)
Goodwill impaired	$713,828

In October 2003, the Company acquired Molecula Research Laboratories, LLC (Molecula), Herndon, Virginia, a leading company in gene silencing technologies for gene and protein function studies by acquiring one hundred percent of the shares of the company which was held by the CEO of the company. The Company issued 500,000 shares of common stock valued at $200,000 for acquisition.

The total consideration paid was $255,158 and the significant components of the transaction are as follows:

Common stock issued	$200,000
Excess of liabilities assumed over assets acquired	55,158
Goodwill impaired	$255,158

In November 2004, the Company acquired KD Medical, Columbia Maryland, a leading manufacturer of microbiological culture media and other research reagents. The Company paid $350,000 in cash, 200,000 shares of common stock valued at $52,000 and incurred an obligation to pay an additional $150,000 by November, 2005. Additionally, the Company is obligated to issue up to 750,000 shares of common stock valued at $195,000 should KD Medical's revenue exceed $1,000,000 and achieve earnings of $10,000 before interest and taxes for the year ended December 31, 2004 (500,000 and 250,000 shares of common stock, respectively).

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

The total consideration paid was $1,460,638 and the significant components of the transaction are as follows:

Cash paid	$350,000
Excess of liabilities assumed over assets acquired	713,638
Debt issued	150,000
Common stock issued at acquisition	52,000
Obligation to issue additional shares of common stock based on operating performance	195,000
Goodwill impaired	$1,460,638

Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 "SAB101 SAB104"). SAB 101 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectbility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Foreign Currency Translation

The Company translates the foreign currency financial statements in accordance with the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Assets and liabilities are translated at current exchange rates, and related revenue and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. Foreign currency translation gains and losses are included in the statement of operations. During 2006 and 2005 the Company did not have any foreign currency adjustments.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Cash Equivalents

For the purpose of the accompanying financial statements, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market determined by average cost method. Inventories consist of products available for sale to distributors and customers.

Components of inventories as of March 31, 2006 and December 31, 2005 are as follows:

	March 31, 2006	December 31, 2005
Raw materials	$145,225	$180,429
Finished goods	44,478	35,701
Total	$189,703	$216,130

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over their estimated useful lives of the assets.

The total depreciation expense for the three months ended March 31, 2006 and 2005 amounted to $11,437 and $12,271, respectively of which $5,384 and $5,703 is included in cost of goods sold for each respective period.

Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (SFAS 144). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Income Taxes

The Company has adopted Financial Accounting Standards No. 109 ("SFAS 109") which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Research and Development

The Company accounts for research and development costs in accordance with the

Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs". Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company did not incur expenditures on research and product development for the three months ended March 31, 2006 and 2005, respectively.

Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

Segment Information

The Company has adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131") in the years ended December 31, 2001 and subsequent years. SFAS 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance.

Stock Based Compensation

In December 2002, the 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 charge 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 December 31, 2002 and subsequent years.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Income (Loss) per Share

The Company has adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share" ("SFAS 128"), specifying the computation, presentation and disclosure requirements of earnings per share information. Basic earnings per share have been calculated based upon the weighted average number of common shares outstanding. Stock options, warrants and convertible debentures have been excluded as common stock equivalents in the diluted earnings per share for the

three months ended March 31, 2005 because they are either anti dilutive, or their effect is not material. There is no effect on earnings per share information for the three months ended March 31, 2006 and 2005 relating to the adoption of this standard.

Liquidity

As shown in the accompanying financial statements, the Company used $106,772 and $76,793 cash in operating activities during the three months ended March 31, 2006 and 2005, respectively. The Company's total liabilities exceeded its total assets by $4,105,684 and $5,651,861 as of March 31, 2006 and December 31, 2005, respectively.

Concentration of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At March 31, 2006 and December 31, 2005, allowance for doubtful accounts balance was $26,284 and $27,982, respectively.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 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 rehandling 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) The amendments made by Statement 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 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.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (continued)

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards 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 implemented the revised standard in the third quarter of fiscal year 2005, the impact of which has been minimal.

On December 16, 2004, FASB issued Statement of Financial Accounting Standards 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.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and a correction of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2007. The Company is currently evaluating the effect that the adoption of SFAS 154 will have on its consolidated results of operations and financial condition. Management does not expect the adoption of these pronouncements to have a material impact on the Company's financial position or results of operations

On February 16, 2006 the Financial Accounting Standards Board (FASB) issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

Reclassifications

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

NOTE B - NOTES PAYABLE

Notes payable at March 31, 2006 and December 31, 2005 consists of the following:

NOTE B - NOTES PAYABLE (Continued)
<TABLE>

	March 31, 2006	December 31, 2005

<S>	<C>	<C>
Note payable-State of Maryland, accrues interest at 0% per annum, unsecured. In accordance with a forbearance agreement, if KD Medical defaults on any payments, cumulative interest at 10% per annum will be added. as of March 31, 2006, cumulative amount of interest was $241,581	$318,200	$335,800
Notes payable-unsettled claims from acquisition of Molecularware; accrues interest at 12% per annum, unsecured	175,273	175,273
Notes payable-settlement of outstanding claims of Molecularware; accrues interest at 12% per annum, unsecured	45,138	45,138
Notes payables-shareholder, accrues interest at 0% per annum, unsecured	17,295	17,295
	555,906	573,506
Less: current maturities	(555,906)	(573,506)
	$ -0-	$ -0-

</TABLE>

Calbatech agreed to issue up to $600,000 of convertible debentures to Molecularware to settle debts. The time frame for settling those debts and issuing convertible debentures was ninety days. As of March 31,, 2006, $45,138 was settled as in the form of debentures. $175,273 remains on Molecularware's books as non-settled, non-converted debt, and to date, there has not been a claim made to Molecularware for payment. The company has not been able to conclusively verify that such debt ever existed. The remaining $379,589 left from the balance of the $600,000 that Calbatech offered to use for settlement of debts has been extinguished through other means of payment.

NOTE C - NOTES PAYABLE - BANKS

Notes payable - banks at March 31, 2006 and December 31, 2005 consists of the following:

	March 31, 2006	December 31, 2005
Bank term debt, guaranteed by its officers, and bears interest at a rate of 9% per annum, with monthly payments of $1,048 over five years, maturing Oct, 2009	$ 37,653	$ 38,757
Line of credit, guaranteed by its officers, in the amount of $12,500 and bears interest rate of 8.5% per annum. The credit line calls for minimum payment of interest only	11,142	10,884
	48,795	49,641
Less: current portion	(19,892)	(18,280)
	$ 28,903	$ 31,361

NOTE D - CONVERTIBLE NOTES PAYABLE

A summary of convertible promissory notes payable at March 31, 2006 and December 31, 2005 is as follows:

<TABLE>

	March 31, 2006	December 31, 2005
<S>	<C>	<C>
10% convertible debenture, with related party, is payable on demand, unpaid principal together with accrued and unpaid interest is, at the option of the holder, convertible into shares of the Company's common stock at a time or conversion price equal to fifty percent of the closing price of the Company's common stock on the date of conversion. The Company has recorded $100,000 as a beneficial conversion discount-interest expense during the year ended December 31, 2003. In 2005, the note was converted to a non-interest bearing debenture.	$ 63,782	$ 76,028
10% convertible debenture with interest due quarterly subject to certain conditions, due three years from the date of the note. The holder has the option to convert unpaid principal to the Company's common stock at the lower of (i) $0.14 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the twenty days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (see below)	263,739	178,632
	327,521	254,660
Less: current maturities	(63,782)	(76,028)
	$263,739	$178,632

</TABLE>

The Company entered into a Securities Purchase Agreement with four accredited investors on May 23, 2005 for the issuance of an aggregate of $2,000,000 of convertible notes ("Convertible Notes"), and attached to the Convertible Notes were warrants to purchase 12,274,436 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of (i) $0.14 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including conversion date.

As of December 31, 2005, the Company issued to the investors Convertible Notes in a total amount of $2,000,000 in exchange for net proceeds of $1,635,667. The proceeds that the Company received were net of prepaid interest of $133,333 representing the first eight month's interest calculated at 10% per annum for the aggregate of $2,000,000 of convertible notes, and related fees and costs of $255,000. Prepaid interest is amortized over the first eight months of the note and capitalized financing costs were amortized over the maturity period (three years) of the convertible notes.

The transaction, to the extent that it is to be satisfied with common stock of the Company would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host debt conversion feature, the Company is required to record a liability relating to both the detachable warrants and the embedded convertible feature of the note payable (included in the liabilities as a "derivative liability".

NOTE D - CONVERTIBLE NOTES PAYABLE (continued)

The accompanying financial statements comply with current requirements relating to warrants and embedded warrants as described in FAS 133, EITF 98-5 and 00-27, and APB 14 as follows:

- The Company allocated the proceeds received between convertible debt and the detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- Subsequent to the initial recording, the increase in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula and the increase in the intrinsic value of the embedded derivative in the conversion feature of the convertible debentures are accrued as adjustments to the liabilities at December 31, 2005.
- The expense relating to the increase in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as an other comprehensive income item in the form of an unrealized interest expense arising from convertible financing on the Company's balance sheet.
- Accreted principal of $263,739 and $178,632 as of March 31, 2006 and December 31, 2005, respectively.

The following table summarizes the various components of the convertible debentures as of March 31, 2006 and December 31, 2005:

<TABLE>

	March 31, 2006	December 31, 2005
<S>	<C>	<C>
Convertible debentures:	$ 263,739	$ 178,632
Warrant liability	981,954	364,299
Derivative liability	1,527,794	3,939,256
	2,773,487	4,482,187
Cumulative adjustment of derivative and warrant liability to fair value	(509,748)	(2,303,555)
Cumulative unrealized loss related to conversion of convertible note to common shares charged to interest expense	(861,325)	(737,600)
Accretion of principal related to convertible debenture	(263,739)	(178,632)
Total convertible debentures:	$1,138,675	$ 1,262,400

</TABLE>

NOTE E - CONVERTIBLE PREFERRED STOCK

On April 15, 2004, the Company issued 1,250,000 shares of Preferred Stock at a price of $0.20 per share to one entity. The Preferred Shares issued were convertible on a 1 to 1.5 basis of Preferred Shares to Common shares. These shares have not been converted as of March 31, 2006.

NOTE F - COMMON STOCK

In January 2006, the Company issued 5,960,000 shares of common stock in exchange for convertible notes payable of $67,694.

In February 2006, the Company issued 4,534,446 shares of common stock in exchange for convertible notes payable of $56,030.

In March 2006, the Company issued 8,286,532 shares of common stock for officer's prior year's compensation, at $0.025 per share, which represented the value of the services received and which did not differ materially from the value of the stock when services were rendered.

CALBATECH, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE F - COMMON STOCK (continued)

In March 2006, the Company issued 400,000 shares of common stock for services rendered at $0.09 per share, which represents the value of the services received and which did not differ materially from the value of the stock issued.

In March 2006, the Company issued 25,000 shares of common stock for services rendered at $0.07 per share, which represents the value of the services received and which did not differ materially from the value of the stock issued.

NOTE G - RELATED PARTY TRANSACTIONS

>From time to time the Company's officers and shareholders advance funds to the Company. The notes payable-related parties balance outstanding was $17,295 as of March 31, 2006 and December 31, 2005, respectively. No formal arrangements or repayment terms exist.

NOTE H - DEFAULT LIABILITY

As of March 31, 2006, a default liability totaling $583,631, including accrued interest at statutory rates, existed against the Corporation's subsidiary, KD Medical, Inc. The Company will contest any attempt to enforce said default.

NOTE I- GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, as of March 31, 2006, the Company incurred accumulated losses of $10,416,865. The Company's current liabilities exceeded its current assets by $1,508,557 as of March 31, 2006. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

If operations and cash flows continue to improve through these efforts, management believes that the Company can continue to operate. However, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems.

The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued developing, marketing and selling of its services and additional equity investment in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

When used in this Form 10-QSB and in our future filings with the Securities and Exchange Commission, the words or phrases will likely result, management expects, or we expect, will continue, is anticipated, estimated or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. These statements are subject to

risks and uncertainties, some of which are described below. Actual results may differ materially from historical earnings and those presently anticipated or projected. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated events or circumstances occurring after the date of such statements.

General Overview

CalbaTech is focused on providing products and platforms to the life sciences research market, both for biotech and pharmaceutical companies, as well as academic and government institutions. In addition, CalbaTech is building an experienced and innovative scientific staff, including several notable members of its Scientific Advisory Board that it believes will contribute breakthrough innovation in areas of biological discovery. Currently, CalbaTech contains four wholly owned subsidiaries, Molecula, Inc.. ("Molecula"), KD Medical, Inc. ("KD"), LifeStem, Inc. ("LifeStem") and Molecularware, Inc. ("Molecularware") that serve niche markets in the life sciences research market. Molecula and Molecularware were acquired by CTI in 2003, KD was acquired in 2004, and LifeStem was incorporated in 2004 to pursue opportunities in the rapidly expanding stem cell market.

Revenues

CalbaTech has generated revenues of $412,567 from operations for the three months ended March 31, 2006, compared to $314,820 for the three months ended March 31, 2005. The Company anticipates that revenues will continue to increase significantly from operations in the coming year for the following reasons: 1) The Company's subsidiaries, Molecula and KD Medical, have moved into one facility to more efficiently capitalize on their synergistic operations; 2) Marketing efforts were coordinated to take advantage of common markets between Molecula and KD; 3) Redundancies in the management teams of the two companies were eliminated; 4) KD and Molecula will be moving into a new facility that has two validated Class 100 clean rooms and a complete quality control laboratory that will be used in two ways to grow revenues. The first clean room will be used to increase the manufacturing capabilities of the KD Medical product offerings, to manufacture a higher quality of product, and to expand the current custom product offerings to the NIH as well as major universities and pharmaceutical companies. The second clean room will be used by KD Medical to perform contract research for the many pharmaceutical companies in the region; 5) KD will also experience growth and greater profitability due to a recent agreement with a large company to OEM some of KD's products, which will allow many of KD's media products to be produced at a savings to KD and be of better quality. This will allow KD to more aggressively sell these products, entering markets that were previously unavailable due to cost competitiveness, resulting in a significant increase in revenues and profitability; and 6) The Company anticipates the launch of LifeStem's stem cell MicroBank in June, which the Company believes will lead to significant additional revenue.

Cost of revenues consists of direct manufacturing costs and applied overhead expenses for the research reagent business, as well as labor costs associated with its service revenue. Cost of revenues as a percentage of net revenues were 47% for the three months ended March 31, 2006, up from 26% for the same period in 2005. The increase in the cost of goods sold percentage reflects the different product mix that the Company has since the acquisition of KD Medical in November 2004. Furthermore, the cost of goods sold percentage will fluctuate from quarter to quarter because absorbed overhead increases when volume is decreasing and because labor ratios are less than optimized in manufacturing processes when revenues are lower. As revenues increases, cost of goods sold as a percentage of revenue should become more and more favorable for the company.

Costs and Expenses

Total operation expenses increased to $574,690 for the three months ended March 31, 2006 from $477,443 in the same period in 2005. This was due primarily to costs associated with the convertible debt financing the Company received in the second quarter of 2005, of which the majority was related to an interest expense of $247,320. Otherwise, overall operational expenses for the three months ended

March 31, 2006 were $143,108, or 30% lower than for the same period in 2005.

Net Income

Due primarily to an unrealized gain on adjustment of derivative and warrant liability to fair value of underlying securities relating to the convertible notes it obtained in 2005, the Company realized Net Income for the three months ended March 31, 2006 of $1,177,539 as compared to a net loss of $270,450 for the same period in 2005. Operationally, the Company believes that increased revenues and profitability generated by KD Medical, continued growth and new profitability of Molecula, along with the Stem Cell Microbank(TM) sales from LifeStem will result in a net profit for 2006.

Liquidity and Capital Resources

As of March 31, 2006, CalbaTech had current assets of cash, accounts receivable, and inventory totaling $539,867, and total assets of $788,597. These numbers compare to current assets of $708,004 and total assets of $1,038,495 as of December 31, 2005. As a result of our operating losses, for the three months ended March 31, 2006, we generated a cash flow deficit of $106,772 from operating activities. The Company has used its working capital to finance ongoing operations and the development and marketing of its products.

The Company's success and ongoing financial viability is contingent upon its selling of its products and the related generation of cash flows. However, should it be necessary, Management believes it would be able to meet its cash flow requirements through additional debt or equity financing. There is no assurance that such financing will be available in the future to meet additional capital needs of the Company, or that any such terms or conditions of any such financing would be favorable to the Company. Both the management of the Company's current growth and the expansion of the Company's current business involve significant financial risk and require significant capital investment.

The independent auditors report on the Company's and CalbaTech's December 31, 2005 financial statements included in this Form states that the Company's recurring losses raise substantial doubts about the Company's ability to continue as a going concern. Nevertheless, through the raising of capital resources and by adjusting its operations and development to the level of capitalization , management belives it has sufficient capital resources to meet projected cash flow deficits through the next twelve months. However, if thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations liquidity and financial condition.

INTRODUCTION

Calbatech, Inc. (Formerly, Traffic Technology Inc.) ("CalbaTech" or "Company") was organized on April 29, 2002 under the laws of the state of Nevada. On January 3, 2003, the Company completed an Agreement and Plan of Exchange ("Agreement") with Traffic Technology, Inc. ("Traffic"). As a result of the acquisition, there was a change in control of the public entity, and Traffic Technology, Inc. changed its name to CalbaTech, Inc.

CalbaTech is focused on providing products and platforms to the life sciences research market, both for biotech and pharmaceutical companies, as well as academic and government institutions. Currently, CalbaTech contains four wholly owned subsidiaries, Molecula, Inc. ("Molecula"), KD Medical, Inc. ("KD"), LifeStem, Inc. ("LifeStem") and Molecularware, Inc. ("Molecularware") that serve niche markets in the life sciences research market. Molecula and Molecularware were acquired by CTI in 2003, KD was acquired in November 2004, and LifeStem was incorporated in September 2004 to pursue opportunities in the rapidly expanding stem cell market.

CORPORATE MISSION AND OBJECTIVES

In order to accomplish its goals, CalbaTech is pursuing a strategy of combining products and technologies, and the companies that provide them, into the

following divisions: 1) Molecular Applications; 2) Research Reagents; and 3) Cellular Therapeutics. By pursuing such a strategy, each division should produce value added and increasing returns on shareholders' investment through cross marketing of products and geographic expansion, as well as to achieve product enhancement and efficiency.

THE RESEARCH REAGENTS DIVISION

STRATEGY

The Company's acquisition strategy is to combine several reagents providers into a credible commercial entity.

MOLECULA RESEARCH LABORATORIES, LLC

CalbaTech acquired Molecula in October 2003. During 2005, Molecula Research Laboratories, LLC was dissolved in the state of Virginia. CalbaTech incorporated Molecula, Inc. in the state of Nevada. Products and intellectual property of the dissolved LLC were transferred to Molecula, Inc.

Molecula develops and sells numerous research reagents for cell transfection, DNA and RNA purification, protein expression, gene expression analysis and other innovative and fundamental products. Molecula also sells transfection reagents, a novel IPTG replacement for increased protein expression, neuropeptides and biochemicals. Please see www.molecula.com.

KD MEDICAL, INC.

CalbaTech acquired KD in the last quarter of 2004. This acquisition substantially increased both product range and revenue in the Research Reagents Division. The product ranges of KD and Molecula are highly complementary, with little over lap. A strength of KD is in the supply of specialized media for culture of model research organisms such as bacteria, yeast, insects and mammalian cell lines. It also supplies products to approximately 300 National Institutes of Health ("NIH") laboratories, contracts invaluable for establishing new products in a favorable government setting. Its secondary products are related to molecular biology reagents. Conversely, Molecula's primary focus is in the design and supply of high value molecular biology reagents such as siRNA and DNA antisense oligonucleotides. It also has reagents such as IPTG that are complementary to customized media.

A large proportion of molecular biology research depends upon culture of a model organism (bacteria, fruit fly, etc.), which is genetically manipulated by transfection of customized oligonucleotides (siRNA). Thus, an alliance of KD and Molecula will be well placed to provide a competitive single source for these culture media transfection reagents and specialized modifier molecules such as siRNA. Further, as explained above, KD's long standing and trusted position, as a major in-house supplier to NIH will greatly ease entry of Molecula's siRNA into that major market. Please see www.kdmedical.com.

COMPETITIVE ANALYSIS

Manufacturers of molecular biology products can be divided into two distinct categories within the industry. One category is the multinational companies with extensive research and development who both out-source and have in-house manufacturing facilities. The other category is the small, independent, local manufacturers such as KD Medical and Molecula. While the multinationals have better brand recognition due to greater advertising and marketing resources, a group of smaller, independent, local companies, including KD, have been emerging over the past ten years that are designed to compete with the three major molecular biology companies. Companies like KD and Molecula have lower overhead and regional shipping proximity resulting in a consistently profitable record of growth. That, combined with customer acceptance (once products are in the various research institutes supply stores) gives small companies an equal access to end users which puts them on an equal footing with the large companies. Most importantly, the smaller companies fill the consumer need for quality products that are less expensive and available immediately. Competitors include Fisher Scientific, Ambion, Proligo, and Qiagen.

CUSTOMERS

KD Medical and Molecula service five distinct customer types: 1) Federally funded research centers such as the National Institutes of Health, the Naval Medical Center, and the National Cancer Institute; 2)Federally funded "Supply Stores" such as at the National Institutes of Health; 3) University and private research centers such as Glaxo Smith-Kline, Johnson & Johnson, Merck & Co., Pfizer Research, and Wyeth Pharmaceuticals; 4) Medical distributors such as Fisher Scientific and VWR International; and 5) OEMs such as Genetix, Ltd. and PML Microbiologicals, Inc.

MARKET SIZE

The general laboratory supplies industry is 12 to $14 Billion, and the molecular biology market to which the Company provides products and services for medical research and drug discovery on which billions of dollars are spent each year. Specifically, the molecular biology market is approximately $600 Million per year, and the RNAi market is estimated to be $328 Million by 2010.

GROWTH POTENTIAL

Growth within the Research Reagents Division will be accomplished through the complementary nature of the subsidiaries within the division and the division of labor.

Additionally, it is anticipated that KD will move into its new state-of-the-art ISO 9002 certified and FDA compliant facility featuring two class 100 clean rooms by the end of May 2006. It is believed that this new facility will provide additional growth opportunities to KD, not only in expanding product lines to existing customers but by providing contract manufacturing and leasing opportunities to pharmaceutical companies.

Finally, KD will also experience growth and greater profitability due to a recent agreement with a large company to OEM some of KD's products, which will allow many of KD's media products to be produced at a savings to KD and be of better quality. This will allow KD to more aggressively sell these products, entering markets that were previously unavailable due to cost competitiveness, resulting in a significant increase in revenues and profitability

FINANCIAL PROJECTIONS

The Reagents Division has two companies with combined 2005 revenues of approximately $1.225 Million in gross revenues. With first quarter revenues of $370,216, CalbaTech believes that combined revenues within the division will be $1.5 Million in 2006. Within three years, it is anticipated that revenues will grow to $5 Million.

THE CELLULAR THERAPIES DIVISION

STRATEGY

The Cellular Therapies Division was created to house CalbaTech's emerging interests in cellular applications, particularly those relating to the use of adult stem cells. The Company believes this is an emerging market in which there are major opportunities for new entrants to establish new standards through novel stem cell research techniques and business models. The Company is positioning itself through strategic alliances to identify and take advantage of such opportunities as they emerge from the interaction between fundamental research and an evolving regulatory environment.

CalbaTech's wholly owned subsidiary LifeStem, Inc. was established take advantage of this rapidly expanding market. In addition to advancing its unique business model for stem cell banking and the provision of purified stem cells to researchers, CalbaTech has filed two patent application for intellectual property relating to (1) a device for the efficient and effective delivery of stem cells to diseased or dead areas of the heart (2) a method of collecting and storing two different types of stem cells in micro quantities for autologous use.

LIFESTEM, INC.

The market for stem cell technology is currently $500 million, and has been

estimated to grow to $30 billion by the year 2010 (Source DMD). This is projected due to the growth of new cellular therapeutics based on embryonic and adult stem cells, as well as clinical applications to compete with, or complement, existing drug based therapeutics. LifeStem's strategy is to leverage the CalbaTech infrastructure of companies to obtain a leadership position in the fast emerging stem cell collection arena and become the preferred provider of adult stem cells to the clinical researcher as part of a comprehensive package of stem cell based services. In time, it is anticipated that elements of LifeStem's services will become standard practice in mainstream clinical applications, thus opening a much larger market to LifeStem as a cellular logistics services company.

LifeStem is positioning itself to become a leading supplier of "Cellular Logistics" in this large new market. The company is focused on the following: (1) Providing a Stem Cell Microbank(TM) service to individuals; (2) Providing services and technologies to facilitate the efficient acquisition and delivery of purified adult stem cells to the research market and; (3) Developing delivery devices for clinical applications.

Stem Cell MicroBank(TM) Service

The therapeutic possibilities that may be provided by collecting and preserving healthy adult stem cells on a pre-disease basis may revolutionize the practice of medicine. The power and promise of stem cell therapies is just emerging, and the corresponding development of new clinical applications and therapies are expected to follow. LifeStem's Stem Cell Microbank(TM) Service focuses on refining existing collection processes that are gaining significant acceptance. The focus will be providing a stem cell collection process and storage service that maintains adult stem cells for future use and broadens the availability of a collection and storage service.

The MicroBanking process, for which LifeStem has filed for US patent protection, is based on the theory that it is not necessary to harvest a quantity of stem cells capable of regenerating the entire immune system at the time of collection, but rather that these cells can be collected in micro quantities and cryo-preserved for future cellular expansion prior to reintroduction into the recipient. The company further believes that it is in the client's best interest to store a stem cell samples from two tissue sources. This concept is defined as a Stem Cell Microbank(TM). LifeStem has applied for trademark protection for the term "Stem Cell Microbank". LifeStem is the only company that is collecting and storing adult stem cells from two different cell sources. LifeStem expects to begin generating revenue from its Stem Cell Microbank(TM) in the second quarter of 2006.

Delivery Devices

LifeStem recognizes that the demand for efficient and minimally invasive methods of delivering stem cells into diseased and/or injured tissue will be critical to any successful stem cell based therapy. To this end, LifeStem, through CalbaTech, has acquired a unique and novel method for the delivery of stem cells.

Addressing the need for alternatives to existing catheter based delivery options is LifeStem's stem cell delivery device. This device is a patent pending proprietary system developed for the regeneration of cardiac muscle post myocardial infarction. This device is designed for the targeted delivery of peripheral blood-derived autologous stem cells to diseased tissue for the purpose of regenerating healthy functional tissue. The device is a disposable sheath placed over a rigid fiber optic endoscope with attached diagnostic and delivery mechanisms. Our device allows the physician to detect dead and diseased cardiac tissue and deliver a precise amount of stem cells thereby promoting regeneration. The device is intended to be compatible with endoscopes from various manufactures.

Although the device has been initially designed for cardiac applications, its applicability extends beyond cardiac applications. The device has the capability of delivering stem cells into all areas of the body that are accessible via an endoscope. As other stem cell related therapies are developed, LifeStem's stem cell delivery device should be well positioned to facilitate the targeted delivery of stem cells into other damaged tissues of the body. LifeStem is currently seeking a collaborative partner to develop a prototype of the device

and is discussing this possibility with several of the nation's leading medical device manufacturers.

Clinical Applications

Stem cells have shown great promise in their ability to grow into new healthy tissue. As a result, they have the potential to provide cures for diabetes, heart disease, Alzheimer's disease, spinal cord injuries and many other medical conditions. There are hundreds of researchers concentrating on the successful cure for these and other diseases.

An area of specific interest to LifeStem however, is the non-disease application of stem cells, notably applications specific to the cosmetic surgery market. Stem cells have been proven to aid in the healing of injured tissue and are a natural compliment to many existing cosmetic surgical procedures.

THE MOLECULAR APPLICATIONS DIVISION

The Molecular Applications Division currently consists of one company, MolecularWare and the bulk of the other R&D projects in various stages of development.

CTI acquired MolecularWare, Inc., to provide services in the bioinformatics sector. MolecularWare had developed software that offers data management software solutions for high throughput biology.

BUSINESS DEVELOPMENT AND CROSS MARKETING OPPORTUNITIES

The CalbaTech strategy brings together several product lines that complement each other, both in their application areas and in their target markets. This affords considerable opportunity for co-marketing and cross marketing opportunities not yet available to the individual companies.

In addition, the strategy brings together developing technologies and intellectual property that, combined, promise the development of future products for the research, diagnostic and therapeutic markets.

Implementation of the strategy immediately generates expanded opportunities for cross marketing such that the new portfolio of products and technologies can generate an accelerated revenue stream while minimizing marketing costs. Additionally, an infrastructure has been built that enables the "plug-in" of new products or brands.

The keys to realizing the potential of the complementary products are:

- The customers for one product are also potential customers for another;
- Exposure to one product results in exposure to the others;
- Brand recognition of each product line is retained and leveraged to expose loyal customers to the other brands;
- The internet and electronic marketing facilitate this much more than "traditional" marketing; and
- Joint promotions linking brands and/or product lines.

Leveraging Brand Recognition and Existing Customer Base

Each of the CalbaTech companies already each have created brand recognition and a satisfied customer base. These can all be leveraged to cross market the products of the others. Joint promotions to each other's customer base further cements these links. The scenario is one of sister companies/brands working together, although there may be additional value in building equity in an overall marketing banner above the different entities.

Electronic Marketing

Multiple linked web sites can create a virtual company, cross-selling different product lines. This also has advantages for prominence using search engines. Joint promotions on the linked sites encourage movement between them. Additionally, Life Science web sites and gateways (such as Biocompare) provide alternative-marketing approaches including "opt-in" e-mail lists to supplement existing users lists. Electronic newsletters promote "sister companies."

PATENTS AND PROPRIETARY TECHNOLOGY

It is the Company's intention to protect its proprietary property through the filing of U.S. and international patent applications, both broad and specific, where necessary and reasonable. The Company believes it will attain strong and broad patent protection for its technologies. It is the Company's intention that all its products be protected under various pending patents, issued patents, copyrights and trademarks.

The Company has the policy of disclosing its proprietary information only under a Confidentiality Agreement. This Agreement has a special clause regarding ownership by the Company of all inventions related to, or based in any way upon, the Company's technologies.

FILINGS

CalbaTech has continued to develop its intellectual property portfolio in the past year. This aims to protect novel concepts owned by the Company and developed by scientists associated with CalbaTech.

The first of these patent applications entitled "Device and methods for processing sample and detecting analytes at low concentration" is a provisional application 60/536,044 filed 01/13/04 by James Zoval, Ph.D. This was officially published by the USPTO 20th October Publication number US-2005-0233352-A1. This application describes a novel concept for the isolation and purification of DNA and other biological molecules. This concept fits within the overall molecular biology/media focus of CalbaTech's acquisition strategy and could become an important new product line.

The second patent application was provisional application entitled "Cardiac Stem Cell Delivery Apparatus" number 60/571,510 filed 06/10/2004 inventor Jason Van Tassel, M.D. This has been converted to full US application. This application is now entitled "Device and methods for treatment of necrotic tissue using" Serial No 11/149/960 filed June 10th 2005. This patent describes a modification of endoscope technology which will facilitate the targeted delivery of adult stem cells to specific tissues. This approach focusing on the process of adult stem cell delivery provides CalbaTech with an entry into the field of adult stem cells services.

Finally CalbaTech has filed a third US provisional application entitled "methods for harvesting and storing autologous stem cells including blood derived hematopoeitic stem cell and adipose derived mesenchymal stem cells" CTEC provisional 00106 filed October 31st 2005. This describes specific methods and processes associated with adult stem cell storage which will be incorporated into LifeStem's business model.

PROPERTIES

CORPORATE

The Company's principal executive and administrative offices are located at 15375 Barranca Parkway, Suite I-101, Irvine, California 92618. The facility consists of approximately 3,000 square feet and is equipped as a general molecular biology and biochemistry lab with is prime purpose being development of an AABB, FDA and CLIA compliant facility to test, process and store adult stem cells, as well as testing of DNA micro-array reagents, including a wet lab and cleanroom. The current lease expires at the end of July 2007 and has a current yearly rent of $52,146. The Company considers these offices to be adequate and suitable for its current needs, but as the Company expands, it expects to expand its facilities and as such, will look for larger facilities when necessary.

KD MEDICAL

KD's facility is located at 6935-A Oakland Mills Road, Columbia, MD. It is a 7,000 square foot facility conveniently located between Baltimore and Washington near the NIH. The facility has two clean rooms for sterile production, a medical packaging room for contract medical packaging, a large warehouse and a walk in cold box. KD currently capability manufactures over a half million liters of molecular biology reagents and buffers, and close to three quarters of a million bacterial and yeast biological media products yearly. KD anticipates moving into its new state-of-the-art ISO 9002 certified and FDA compliant facility featuring two class 100 clean rooms by the end of the second quarter of 2006.

ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months. Other than as provided within this Form 10QSB and other filings, we do not anticipate the acquisition of any significant property, plant or equipment during the next 12 months.

NUMBER OF EMPLOYEES

The Company currently has sixteen employees. The Company does not have any collective bargaining agreements covering any of its employees, has not experienced any material labor disruption and is unaware of any efforts or plans to organize its employees. The Company considers relations with its employees to be good.

FORWARD LOOKING STATEMENTS.

The foregoing Managements Discussion and Analysis of Financial Condition and Results of Operations "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, including but not limited to, those risks associated with economic conditions generally and the economy in those areas where the Company has or expects to have assets and operations; competitive and other factors affecting the Company's operations, markets, products and services; those risks associated with the Company's ability to successfully negotiate with certain customers, risks relating to estimated contract costs, estimated losses on uncompleted contracts and estimates regarding the percentage of completion of contracts, associated costs arising out of the Company's activities and the matters discussed in this report; risks relating to changes in interest rates and in the availability, cost and terms of financing; risks related to the performance of financial markets; risks related to changes in domestic laws, regulations and taxes; risks related to changes in business strategy or development plans; risks associated with future profitability; and other factors discussed elsewhere in this report and in documents filed by the Company with the Securities and Exchange Commission. Many of these factors are beyond the Company's control. Actual results could differ materially from these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Form 10-KSB will, in fact, occur. The Company does not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances and other factors discussed elsewhere in this report and the documents filed or to be filed by the Company with the Securities and Exchange Commission.

Inflation

In the opinion of management, inflation has not had a material effect on the operations of the Company.

Cautionary Factors that may Affect Future Results

We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Trends, Risks and Uncertainties

The Company has sought to identify what it believes to be the most significant risks to its business as discussed in "Risk Factors" above, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock.

Limited operating history; anticipated losses; uncertainly of future results

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the business model that the Company intends to market and the potential acceptance of the Company's business model. The Company will be incurring costs to develop, introduce and enhance its products, to establish marketing relationships, to acquire and develop products that will complement each other, and to build an administrative organization. To the extent that such expenses are not subsequently followed by commensurate revenues, the Company's business, results of operations and financial condition will be materially adversely affected. There can be no assurance that the Company will be able to generate sufficient revenues from the sale of its products and services. The Company expects that negative cash flow from operations may exist for the next 12 months as it continues to develop and market its products and services. If cash generated by operations is insufficient to satisfy the Company's liquidity requirements, the Company may be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's shareholders.

Potential fluctuations in quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside the Company's control, including: the demand for the Company's products and services; seasonal trends in demand and pricing of products and services; the amount and timing of capital expenditures and other costs relating to the expansion of the Company's operations; the introduction of new services and products by the Company or its competitors; price competition or pricing changes in the industry; political risks and uncertainties involving the world's markets; technical difficulties and general economic conditions. The Company's quarterly results may also be significantly affected by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Due to the foregoing factors, among others, it is possible that the Company's operating results may fall below the expectations of the Company and/or investors in some future quarter.

Management of Growth

The Company expects to experience growth in the number of employees relative to its current levels of employment and the scope of its operations. In particular, the Company may need to hire scientists, as well as sales, marketing and administrative personnel. Additionally, acquisitions could result in an increase in employee headcount and business activity. Such activities could result in increased responsibilities for management. The Company believes that its ability to attract, train, and retain qualified technical, sales, marketing, and management personnel, will be a critical factor to its future success. During strong business cycles, the Company may experience difficulty in filling its needs for qualified personnel.

The Company's future success will be highly dependent upon its ability to

successfully manage the expansion of its operations. The Company's ability to manage and support its growth effectively will be substantially dependent on its ability to implement adequate financial and management controls, reporting systems, and other procedures and hire sufficient numbers of financial, accounting, administrative, and management personnel. The Company is in the process of establishing and upgrading its financial accounting and procedures. There can be no assurance that the Company will be able to identify, attract, and retain experienced accounting and financial personnel. The Company's future operating results will depend on the ability of its management and other key employees to implement and improve its systems for operations, financial control, and information management, and to recruit, train, and manage its employee base. There can be no assurance that the Company will be able to achieve or manage any such growth successfully or to implement and maintain adequate financial and management controls and procedures, and any inability to do so would have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company's future success depends upon its ability to address potential market opportunities while managing its expenses to match its ability to finance its operations. This need to manage its expenses will place a significant strain on the Company's management and operational resources. If the Company is unable to manage its expenses effectively, the Company's business, results of operations, and financial condition may be materially adversely affected.

Risks associated with acquisitions

As a major component of its business strategy, the Company expects to acquire assets and businesses relating to or complementary to its operations. Any acquisitions by the Company would involve risks commonly encountered in acquisitions of companies. These risks would include, among other things, the following: the Company could be exposed to unknown liabilities of the acquired companies; the Company could incur acquisition costs and expenses higher than it anticipated; fluctuations in the Company's quarterly and annual operating results could occur due to the costs and expenses of acquiring and integrating new businesses or technologies; the Company could experience difficulties and expenses in assimilating the operations and personnel of the acquired businesses; the Company's ongoing business could be disrupted and its management's time and attention diverted; the Company could be unable to integrate successfully.

Liquidity and Working Capital Risks; Need for Additional Capital to
---
Finance Growth and Capital Requirements

We have had limited working capital and we may rely upon notes (borrowed funds) to operate. We may seek to raise capital from public or private equity or debt sources to provide working capital to meet our general and administrative costs until net revenues make the business self-sustaining. We cannot guarantee that we will be able to raise any such capital on terms acceptable to us or at all. Such financing may be upon terms that are dilutive or potentially dilutive to our stockholders. If alternative sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans in accordance with the extent of available funding.

Potential fluctuations in quarterly operating results

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including: the demand for our products; seasonal trends in purchasing, the amount and timing of capital expenditures and other costs relating to the development of our products; price competition or pricing changes in the industry; technical difficulties or system downtime; general economic conditions, and economic conditions specific to the healthcare industry. Our quarterly results may also be significantly impacted by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Particularly at our early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that our operating results will fall below

our expectations or those of investors in some future quarter.

Dependence Upon Management

Our future performance and success is dependant upon the efforts and abilities of our Management. To a very significant degree, we are dependent upon the continued services of James DeOlden, Edward Deese and John Gordon, our founders and Directors. If we lost the services of Mr. DeOlden, Mr. Deese or Dr. Gordon or other key employees before we could get a qualified replacement, that loss could materially adversely affect our business. We currently maintain key man life insurance on the lives of Mr. DeOlden and Mr. Deese in the amounts of $3,000,000 and $2,842,000 respectively.

Lack of Independent Directors

We cannot guarantee that our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, who are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company and its stockholders generally and the controlling officers, stockholders or directors.

Limitation of Liability and Indemnification of Officers and Directors
---

Our officers and directors are required to exercise good faith and high integrity in our Management affairs. Our Articles of Incorporation provide, however, that our officers and directors shall have no liability to our shareholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or stock repurchase, or derived an improper benefit from the transaction. Our Articles and By-Laws also provide for the indemnification by us of the officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate our business or conduct the internal affairs, provided that in connection with these activities they act in good faith and in a manner that they reasonably believe to be in, or not opposed to, the best interests of the Company, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations. To further implement the permitted indemnification, we have entered into Indemnity Agreements with our officers and directors.

Continued Control by Current Officers and Directors

As of May 1, 2006, the present officers and directors own approximately 25% of the outstanding shares of Common Stock, and therefore are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of the Company, the appointment of officers, and the determination of officers' salaries. Shareholders have no cumulative voting rights.

Delays in the Introduction of Our Products or Services

The Company may be subject to regulation by numerous governmental authorities. Failure to obtain regulatory approvals or delays in obtaining regulatory approvals by the Company, its collaborators or licensees would adversely affect the marketing of products or services developed by the Company, as well as hinder the Company's ability to generate product revenues. Further, there can be no assurance that the Company, its collaborators or licensees will be able to obtain the necessary regulatory approvals. Although the Company does not anticipate problems satisfying any of the regulations involved, the Company cannot foresee the possibility of new regulations that could adversely affect the business of the Company.

The healthcare industry is a highly regulated industry and is subject to

numerous statutes, rules and regulations administered by healthcare commissions or similar regulatory authorities of each jurisdiction. The Company may be required to submit applications relating to their activities or products (including detailed background information concerning controlling persons within their organization) that are then reviewed for approval. The Company may incur significant expense in seeking to obtain licenses for its products and concepts. No assurances can be given that its products will be approved in any particular jurisdiction. The failure to obtain such approval or delay in obtaining such approval in any jurisdiction that the Company seeks to introduce its products or concepts may have a materially adverse effect upon the Company's business.

Dependence on Independent Parties to Produce our Products

The Company may be dependent upon current and future collaborations with and among independent parties to research, develop, test, manufacture, sell or distribute our products. The Company intends to continue to rely on such collaborative arrangements. Some of the risks and uncertainties related to the reliance on such collaborations include, but are not limited to 1) the ability to negotiate acceptable collaborative arrangements, 2) the fact that future or existing collaborative arrangements may not be successful or may not result in products that are marketed or sold, 3) such collaborative relationships may actually act to limit or restrict the Company, 4) collaborative partners are

free to pursue alternative technologies or products either on their own or with others, including the Company's competitors, for the diseases targeted by the Company's programs and products and 5) the Company's partners may terminate a collaborative relationship and such termination may require the Company to seek other partners, or expend substantial additional resources to pursue these activities independently. These efforts may not be successful and may interfere with the Company's ability to manage, interact and coordinate its timelines and objectives with its strategic partners.

Government Regulation and Legal Uncertainties

The Company is not currently subject to many direct government regulations, other than the securities laws, the regulations thereunder applicable to all publicly owned companies, the Food and Drug Administration, the American Association of Blood Banks, and the laws and regulations applicable to businesses generally. It is possible that certain laws and regulations may be adopted at the local, state, national and international level that could effect the Company's operations. Changes to such laws could create uncertainty in the marketplace which could reduce demand for the Company's products or increase the cost of doing business as a result of costs of litigation or a variety of other such costs, or could in some other manner have a material adverse effect on the Company's business, financial condition, results of operations and prospects. If any such law or regulation is adopted it could limit the Company's ability to operate and could force the business operations to cease, which would have a significantly negative effect on the shareholder's investment. The integrated disclosure system for small business issuers adopted by the Securities and Exchange Commission in Release No. 34-30968 and effective as of August 13, 1992, substantially modified the information and financial requirements of a "Small Business Issuer," defined to be an issuer that has revenues of less than $25,000,000; is a U.S. or Canadian issuer; is not an investment company; and if a majority-owned subsidiary, the parent is also a small business issuer; provided, however, an entity is not a small business issuer if it has a public float (the aggregate market value of the issuer's outstanding securities held by non-affiliates) of $25,000,000 or more. The Company is deemed to be a "small business issuer." The Securities and Exchange Commission, state securities commissions and the North American Securities Administrators Association, Inc. ("NASAA") have expressed an interest in adopting policies that will streamline the registration process and make it easier for a small business issuer to have access to the public capital markets. The Company can make no assurances that any of these agencies will adopt any such policies. Also, an agency could adopt such policy that may have a detrimental effect to the Company's operations and it could have a significantly negative effect on the value of the Company's equity.

Limited Market Due To Penny Stock

The Company's stock differs from many stocks, in that it is a "penny stock." The Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." These rules include, but are not limited to, Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6 and 15g-7 under the Securities and Exchange Act of 1934, as amended. Because our securities probably constitute "penny stock" within the meaning of the rules, the rules would apply to us and our securities. The rules may further affect the ability of owners of our stock to sell their securities in any market that may develop for them. There may be a limited market for penny stocks, due to the regulatory burdens on broker-dealers. The market among dealers may not be active. Investors in penny stock often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make. Because of large dealer spreads, investors may be unable to sell the stock immediately back to the dealer at the same price the dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all. Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include:- - Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; -Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; - "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons; - Excessive and undisclosed bid-ask differentials and markups by selling broker- dealers; and - The wholesale dumping of the same securities by promoters and broker- dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses. Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers. Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system

(NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than $2,000,000 (if the issuer has been in continuous operation for at least three years) or $5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than $6,000,000 for the last three years. Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock." Rule 15g-9 of the Commission requires broker- dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

PART II.

ITEM 1. LEGAL PROCEEDINGS.

Other than as set forth below, the Company is not a party to any material pending legal proceedings and, to the best of its knowledge, no such action by or against the Company has been threatened. The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have material adverse effect on its financial position, results of operations or liquidity.

A corporation has lodged a claim against K-D Medical, Inc., one of the Company's subsidiaries, in such that it claims to have a judgment of $572,188 against K-D Medical, Inc., inclusive of interest. The Company intends to take all steps necessary to contest the validity of such claim on behalf of K-D Medical, Inc. if and when such a formal claim is made.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Sales of Unregistered Securities.

The Registrant had no sales of unregistered securities during the three-month period ending March 31, 2006 other than disclosed within this Form 10QSB, and in particular, Notes B and C to the Financial Statements.

Use of Proceeds.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were not any matters submitted requiring a vote of security holders during the three-month period ending March 31, 2006 other than as disclosed herein.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Reports on Form 8-K. No reports on Form 8-K were filed during the three-month period covered in this Form 10-QSB other than disclosed below, or as filed in our Form 10-KSB for 2005.

(b) Exhibits. Exhibits included or incorporated by reference herein: See Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Articles of Incorporation*
2.1.1	Articles of Amendment to Articles of Incorporation, dated September 16, 1998*
2.1.2	Articles of Amendment dated March 20, 2003*
2.1.3	Articles of Merger dated March 20, 2003 for redomicile*
2.1.3.1	Merger Agreement underlying Articles of Merger for redomicile*
2.1.4	Articles of Merger dated March 20, 2003 for merger of subsidiary, CalbaTech, Inc., into Parent, Traffic Technology, Inc. with name change to CalbaTech, Inc. post merger *
2.1.4.1	Merger Agreement underlying Articles of Merger for merger of Subsidiary and Parent and concurrent name change *
2.2	Bylaws of Traffic Technology, Inc., a Nevada Corporation *
6.1	Consulting Agreement with Pinnacle West Capital Corporation,

	dated May 30, 2000*
6.2	Distributor Agreement with Layton Solar, dated April 3, 2000*
6.2.1	Amendment to Distributor Agreement with Layton Solar, dated August 24, 2000*
6.3	Distributor Agreement with IMS Industries, dated March 17, 2000*
6.4	Distributor Agreement with Taiwan Signal Technologies Co., dated June 30, 2000*
6.5	Distributor Agreements with Artflex, Sinalizacao and Viaria Ltd., dated August 7, 2000*
6.6	Distributor Agreement with Supremetech Engineering Co., dated August 15, 2000*
6.7	Consulting Service Agreement for LED Traffic Signal Technology Transfer and Licensing with JCI Group, Inc. (China), dated January 8, 2001*
6.8	LED Single Lens Traffic Signal Technology Transfer and Consulting Service Agreement with JCI Group, Inc. Japan), dated April 25, 2001*
6.9	Form of Distributor Agreement (United States)*
10.1	Employment Agreement for James DeOlden *
10.2	Employment Agreement for Edward Deese *
10.3	Employment Agreement for John Gordon *
10.4	Employment Agreement for David Killen *
10.5	Asset Purchase Agreement (Zoval Enterprises) *
10.6	Agreement and Plan of Reorganization for the acquisition of MolecularWare *
10.7	Agreement and Plan of Reorganization for the acquisition of Molecula *
10.8	Indemnification Agreement - James DeOlden *
10.9	Indemnification Agreement - Edward Deese *
10.10	Indemnification Agreement - John Gordon *
24.1	Power of Attorney (filed herein)
31.1	Certification of President and Chief Executive Officer pursuant to Rules 13A-14 and 15D-14 of the Securities Exchange Act of 1934.
31.2	Certification of Principal Accounting Officer pursuant to Rules 13A-14 and 15D-14 of the Securities Exchange Act of 1934.
32.1	Certification pursuant of Chief Executive Officer to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification pursuant of Chief Financial Officer to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes Oxley Act of 2002.

*Documents previously filed with the SEC

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated:

Signature	Title	Date
/s/ James DeOlden James DeOlden	CEO/Secretary/Director	May 2, 2006
/s/Edward Deese Edward Deese	President/Treasurer/Director	May 2, 2006

/s/John Gordon, PhD	Vice-President/CTO/Director	May 2, 2006

John Gordon, PhD

CERTIFICATIONS

Exhibit 31.1

Certification of Principal Executive Officer

I, James DeOlden, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CalbaTech, Inc.;

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 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 small business issuer as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that has occurred during the small business issuer's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal controls over financial reporting; and

5. I have disclosed, based my most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit

committee of the small business issuer's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize, and report financial information; and

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

6. The registrant's other certifying officers and I have indicated in this report whether or not 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, 2006

/s/ James DeOlden

James DeOlden, CEO

Exhibit 31.2

Certification of Principal Financial Officer

I, Edward Deese, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CalbaTech, Inc.;

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 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 small business issuer as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that has occurred during the small business issuer's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal controls over financial reporting; and

5. I have disclosed, based my most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons

performing the equivalent functions);

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize, and report financial information; and

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

6. The registrant's other certifying officers and I have indicated in this report whether or not 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, 2006

/s/ Edward Deese

Edward Deese, CFO

Exhibit 32.1

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

In connection with the Quarterly Report of CalbaTech, Inc. (the "Company") on Form 10-QSB for the period ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James DeOlden, CEO, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act, that:

(1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The Information contained in the Report fairly represents, in all material aspects, the financial condition and result of operations on the Company.

By: /s/ James DeOlden

James DeOlden, CEO

Exhibit 32.2

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

In connection with the Quarterly Report of CalbaTech, Inc. (the "Company") on Form 10-QSB for the period ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward Deese, CFO, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act, that:

(1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The Information contained in the Report fairly represents, in all material aspects, the financial condition and result of operations on the Company.

By: /s/ Edward Deese

Edward Deese, CFO