FORM 10QSB

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

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. 0001108890-04-000460

FILER

NANOBAC PHARMACEUTICALS INC

CIK:**925894**| IRS No.: **593248917** | State of Incorp.:**FL** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-80612** | Film No.: **04970141**
SIC: **8071** Medical laboratories

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

FORM 10-QSB
QUARTERLY REPORT

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

For the Quarter Period Ended
June 30, 2004

Nanobac Pharmaceuticals, Incorporated
(Exact name of registrant as specified in its charter)

Florida	0-24696	59-3248917
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

2727 W. Martin Luther King Blvd, Suite 850, Tampa, Florida 33607
(Address of Principal Executive Office) (Zip Code)

(813) 264-2241
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ ] No [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act):

Yes [ ] No [X]

The number of shares issued and outstanding of the Registrant's Common Stock, no par value, as of August 12, 2004 was 149,517,285.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

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NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited) June 30, 2004	December 31, 2003
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS		
Cash	$ 27,160	$ 49,755
Account receivable	14,199	5,765
Inventory	15,605	16,211
Prepaid expenses	15,884	14,880
Total current assets	72,848	86,611
FIXED ASSETS, less accumulated depreciation of $59,114	142,254	135,259
OTHER ASSETS		
Security deposits	69,920	70,110
Intangible assets, less accumulated amortization of $509,364	7,528,678	2,136,717
Goodwill	3,615,393	3,615,393
Total other assets	11,213,991	5,822,220
TOTAL ASSETS	$ 11,429,093	$ 6,044,090
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 664,102	$ 752,600
Accrued compensation	366,207	46,658
Accrued expenses	350,143	320,979
Short-term note payable	73,600	90,000
Other Liabilities	14,138	--
Stockholder loans	7,174,972	5,640,009
Total current liabilities	8,643,162	6,850,246
CONTINGENCY (Note 2)	--	--
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value, 250,000,000 shares authorized, 149,517,285 shares issued and outstanding at June 30, 2004 and 100,000,000 shares authorized and 99,968,840 shares issued and outstanding at December 31, 2003	13,633,849	4,233,788
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued and outstanding at June 30, 2004 and 794,569 shares issued and outstanding at December 31, 2003	--	350,484
Due from option exercise	--	(200,000)
Accumulated deficit	(10,838,269)	(5,174,790)
Accumulated other comprehensive loss	(9,649)	(15,638)

Total stockholders' equity (deficit)	2,785,931	(806,156)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 11,429,093	$ 6,044,090

The accompanying notes are an integral part
of these financial statements

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NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended June 30, 2004	Three Months ended June 30, 2003	Six Months ended June 30, 2004	Six Months ended June 30, 2003
<S>	<C>	<C>	<C>	<C>
REVENUE	$ 73,564	$ 77,637	$ 105,949	$ 77,637
COST OF REVENUE	13,616	60,463	20,805	60,463
GROSS PROFIT	59,948	17,174	85,144	17,174
OPERATING EXPENSES				
Sales, general and administrative	508,837	140,822	4,043,262	1,076,268
Research and development	637,841	21,731	1,116,166	21,731
Depreciation and amortization	210,426	21,129	368,539	21,129
Total Operating Expenses	1,347,104	183,682	5,527,967	1,119,128
OPERATING LOSS	(1,297,156)	(166,508)	(5,442,823)	(1,101,954)
NET OTHER EXPENSES				
Interest expense	(85,751)	(3,380)	(168,718)	(3,380)
Other, net	(1,332)	3,657	5,330	3,657
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,384,238)	(166,231)	(5,606,211)	(1,101,677)
PROVISION FOR INCOME TAXES	--	--	--	--
LOSS FROM CONTINUING OPERATIONS	(1,384,238)	(166,231)	(5,606,211)	(1,101,677)
DISCONTINUED OPERATIONS:				
Loss from discontinued operations (no applicable income taxes)	--	(302,435)	(57,268)	(601,072)
NET LOSS	$ (1,384,238)	$ (468,666)	$ (5,663,479)	$ (1,702,749)
LOSS FROM CONTINUING OPERATIONS PER COMMON SHARE				
Basic and Diluted	$ (0.01)	$ (0.00)	$ (0.04)	$ (0.02)
NET LOSS PER COMMON SHARE				
Basic and Diluted	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.03)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING Basic and Diluted	149,517,285	70,010,016	145,134,086	64,946,615

The accompanying notes are an integral part of these financial statements

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NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Unaudited)

	Common Stock		Preferred Stock	
	Shares	Value	Shares	Value
<S>	<C>	<C>	<C>	<C>
Balance, January 1, 2004	99,968,840	$ 4,233,788	794,569	$ 350,484
Conversion of preferred stock to common stock	35,048,445	350,484	(794,569)	(350,484)
Cash received from option exercise	--	--	--	--
Stock issued for services	4,500,000	2,562,750	--	--
Common stock issued in acquisition of Nanobac OY	10,000,000	5,737,500	--	--
Capital contribution associated with sale of subsidiary to affiliate	--	749,327	--	--
Comprehensive loss: Net Loss	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Comprehensive loss	--	--	--	--
Balance, June 30, 2004	149,517,285	$ 13,633,849	--	$ --

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NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Unaudited)(Continued)

	Due from Option Exercise	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
<S>	<C>	<C>	<C>	<C>
Balance, January 1, 2004	$ (200,000)	$ (5,174,790)	$ (15,638)	$ (806,156)
Conversion of preferred stock to common stock	--	--	--	--
Cash received from option exercise	200,000	--	--	200,000
Stock issued for services	--	--	--	2,562,750
Common stock issued in acquisition of Nanobac OY	--	--	--	5,737,500
Capital contribution associated with sale of subsidiary to affiliate	--	--	--	749,327
Comprehensive loss:				
Net Loss	--	(5,663,479)	--	(5,663,479)
Foreign currency translation adjustment	--	--	5,989	5,989
Comprehensive loss	--	--	--	(5,657,490)
Balance, June 30, 2004	$ --	$(10,838,269)	$ (9,649)	$ 2,785,931

The accompanying notes are an integral part of these financial statements

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NANOBAC PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months ended June 30, 2004	Six Months ended June 30, 2003
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(5,663,479)	$(1,702,749)
Adjustments to reconcile net loss to cash flow from operating activities:		
Depreciation and amortization	368,539	21,129
Common stock issued for services	2,562,750	750,000
Minority interest in net loss	--	(3,599)
Interest expense added to stockholder loan	167,262	--
Net (increase) decrease in assets:		
Accounts receivable	(8,434)	34
Inventory	606	58
Other assets	(1,005)	28,708
Net increase (decrease) in liabilities:		
Accounts payable	390,083	101,761
Accrued compensation	319,549	--

Accrued expenses	49,910	(46,470)
Deferred revenue	14,138	--
Total adjustments	3,863,398	851,621
Net cash flows from operating activities	(1,800,081)	(851,128)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(27,751)	--
Acquisition of subsidiary, net of cash received	(900)	120,509
Cash received from exercise of stock option in subsidiary	200,000	--
Net cash flows from investing activities	171,349	120,509
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from line of credit, net	--	14,954
Proceeds from issuance of common stock	--	359,000
Proceeds from stockholder loans, net	1,617,701	440,269
Payment of notes payable, net	(16,400)	--
Net cash flows from financing activities	1,601,301	814,223
Effect of exchange rate changes	4,835	--
Net change in cash	(22,595)	83,604
Cash balance, beginning of period	49,755	--
Cash balance, end of period	$ 27,160	$ 83,604
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 1,456	$ 3,676
Supplemental schedule of non-cash investing and financing activities:		
Common stock issued in acquisition	$ 5,737,500	$ 1,130,320
Common stock issued for the conversion of debt	$ --	$ 369,800
Capital contribution associated with sale of subsidiary to affiliate		
Reduction in stockholder loan	$ 250,000	$ --
Assumption of accounts payable and accrued expenses	$ 499,327	$ --

The accompanying notes are an integral part
of these financial statements

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NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

1. Nature of operations and summary of significant accounting polices

Nature of business

Nanobac Pharmaceuticals, Incorporated ("NNBP" or the "Company") announced a name change from Nanobac Pharmaceuticals, Incorporated to Nanobac Life Sciences, Inc., to become effective upon approval by the shareholders. Nanobac Pharmaceuticals, Incorporated trades under the symbol "NNBP."

NNBP's primary business is the study and development of therapeutic and diagnostic technologies related to nanobacterium sanguineum ("Nanobacteria"). Nanobacteria are believed to be small (10,000 to 100,000 times smaller than typical bacteria), slowly growing bacterium that can be found in human blood, kidney stones and arterial wall plaques.

Basis of Presentation

In the opinion of management, the accompanying financial statements include all

adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with generally accepted accounting principles. The results of operations for the six months ended June 30, 2004 and 2003 are not necessarily indicative of the results for a full year.

The financial statements for the periods ended June 30, 2004 and 2003 and notes thereto should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2003 for NNBP as filed in the annual report on Form 10-KSB, which information is included by reference.

Liquidity and Management Plans

The accompanying financial statements have been prepared assuming that NNBP will continue as a going concern. The Company has incurred recurring losses and has equity and working capital deficiencies at June 30, 2004. The Company is dependent on the continued financing from outside investors including additional shareholder loans. All of these matters raise substantial doubt about the ability of the Company to continue as a going concern. Management believes that NNBP will need to raise additional capital in order to launch new clinical trials, fund research and development for new treatment areas, and general working capital requirements. Capital may be raised through further sales of equity securities, which may result in dilution of the position of current shareholders. At this time, there are no firm commitments to invest in NNBP.

There can be no assurances that NNBP will be successful in obtaining debt or equity financing in order to achieve its financial objectives and continue as a going concern. The financial statements do not include any adjustments to the carrying amount of assets and the amounts and classifications of liabilities that might result from the outcome of this uncertainty.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

1. Nature of operations and summary of significant accounting polices (continued)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. On June 4, 2003, the Company acquired a majority interest in LABS and on November 11, 2003, the Company acquired a majority interest of OY (see Note 2, "Acquisitions"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", NNBP has included in its results of operations for each period presented, the results of operations of LABS from June 4, 2003 and the results of operations of OY from November 11, 2003.

Revenue Recognition

Sales of the Company's products are recognized when shipped and title has passed. Revenue is recorded net of reserves for estimated discounts.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

The carrying value of NNBP's financial instruments, including cash, accounts receivable, accounts payable, short-term note payable and stockholder loans approximate their fair market values.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined in a manner which approximates the first-in, first-out (FIFO) method. Inventory consists of raw materials for currently marketed products. Inventory is shown net of applicable reserves and allowances.

Fixed Assets

Fixed assets consist of furniture, fixtures, computers and lab equipment and are recorded at cost. Fixed assets are depreciated using the straight-line method over the estimated useful lives of three to seven years.

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NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

1. Nature of operations and summary of significant accounting polices (continued)

Intangible assets and goodwill

Intangible assets are recorded at cost, less accumulated amortization. Intangible assets consist of acquired technology rights obtained in acquisitions. Amortization of intangible assets is provided over the following estimated useful lives on a straight-line basis:

Patents	12 years
Product rights	5 years

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized, but is subject to periodic impairment tests.

Research and development expenses

Research and development expenses are comprised of the following types of costs incurred in performing R&D activities: salaries and benefits, allocated overhead and occupancy costs, clinical trial and related clinical manufacturing costs, contract services, and other outside costs. Research and development costs are expensed as incurred.

Net loss per share

Net loss per share represents the net loss attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. The effect of incremental shares from common stock equivalents is not included in the calculation of net loss per share as the inclusion of such common stock equivalents would be anti-dilutive. Accordingly, fully dilutive shares outstanding equal basic shares outstanding as of and for the periods ended June 30, 2004 and 2003.

Loss per share for the three and six months ended June 30, 2004 and 2003 is summarized as follows:

	Three Months ended June 30, 2004	Three Months ended June 30, 2003	Six Months ended June 30, 2004	Six Months ended June 30, 2003
<S>	<C>	<C>	<C>	<C>
Loss from continuing operations per common share	($0.01)	$0.00	($0.04)	($0.02)
Discontinued operations per common share	0.00	(0.01)	0.00	(0.01)
Net loss per common share	($0.01)	($0.01)	($0.04)	($0.03)

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NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

1. Nature of operations and summary of significant accounting polices (continued)

Income taxes

NNBP records its federal and state tax liability in accordance with Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes". Deferred taxes are recorded for temporary differences between the recognition of income and expenses for tax and financial reporting purposes, using current tax rates. Deferred assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Acquisitions

NanobacLabs Pharmaceuticals, Inc.

On June 4, 2003, NNBP acquired approximately 74.4% of LABS in exchange for 24,400,000 restricted shares of NNBP. From June 5, 2003 through December 31, 2003, NNBP acquired the remaining 25.6% of LABS from various stockholders in exchange for 6,598,000 restricted shares and additional consideration of $4.1 million.

The total consideration for LABS was approximately $5.5 million, which included the fair value of NNBP common stock issued, as well as direct transaction costs. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

Current assets	$ 895,058
Investment in OY	693,778
Fixed assets	113,651
Identifiable intangible assets	1,350,000
Goodwill	3,615,393
Other assets	62,500
Current liabilities	(768,280)
Note payable	(486,188)
	$ 5,475,912

Acquired identifiable intangible assets consist of product rights for the treatment of Nanobacteria. The allocation of the purchase price was based, in part, on third-party valuations of the fair values of identifiable intangible assets. Amortization of this asset commenced as of the acquisition date.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

2. Acquisitions (continued)

Nanobac OY

Nanobac OY is a Finnish company that performs similar research to that of the Company in nanobacteria infection. On September 25, 2002, LABS entered into an agreement to purchase 27% of Nanobac OY stock from three Finnish entities for 11,430 Euros. A separate agreement also required LABS to acquire convertible promissory notes in Nanobac OY in the amount of 686,000 Euros plus interest. On November 11, 2003, NNBP completed the acquisition of Nanobac OY when the final payment was made and the Company exercised the conversion option in the convertible promissory notes. Upon the conclusion of this transaction, the Company owned 65% of OY. During January through March 2004, NNBP acquired the remaining 35% of Nanobac OY from Dr. Kajander and Dr. Ciftcioglu ("OY Minority Shareholders"). The purchase price was 10 million shares of NNBP's common stock valued at $5.7 million. An additional $350,000 is payable to the OY Minority Shareholders at the later of two years or when NNBP raises $5 million of capital. In addition, as part of the above agreement, the OY Minority Shareholders agreed to employment agreements with NNBP.
The total consideration to date for OY is $6.5 million, which included cash payments (made before and after the acquisition of LABS), the fair value of NNBP common stock issued, as well as direct transaction costs. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

Current assets	$ 37,535
Fixed assets	29,287
Identifiable intangible assets	6,687,243
Other assets	4,732
Current liabilities	(11,883)
Advances from Nanobac	(228,118)
	$ 6,518,796

Acquired identifiable intangible assets consist of patents for the detection and treatment of Nanobacteria. The allocation of the purchase price was based, in part, on third-party valuations of the fair values of identifiable intangible assets. Amortization of this asset commenced as of the acquisition date.

2. Acquisitions (continued)

Proforma

The following unaudited table compares NNBP's reported operating results to pro forma information prepared on the basis that the acquisitions had taken place at the beginning of the fiscal year for each of the periods presented:

	Six months ended June 30,	
	2004	2003
As Reported		
Revenue	$ 105,949	$ 77,637
Net loss	$(5,663,479)	$(1,702,749)
Basic loss per share	$ (0.04)	$ (0.03)
Diluted loss per share	$ (0.04)	$ (0.03)
Proforma		
Revenue	$ 105,949	$ 751,321
Net loss	$(5,714,468)	$(3,233,444)
Basic loss per share	$ (0.04)	$ (0.03)
Diluted loss per share	$ (0.04)	$ (0.03)

In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of each period presented or of future operations of the combined companies under the ownership and management of NNBP.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

3. Discontinued Operations

During October 2003, NNBP decided to divest its HealthCentrics business unit to focus exclusively on its nanobacteria business unit. NNBP was unsuccessful in finding a buyer for this business unit. During March 2004, this business unit was sold to an affiliate of the Chairman and CEO for consideration of $250,000 (a reduction in amounts otherwise owed to the affiliate). NNBP's gain on disposal was $749,326, which is accounted for as a capital contribution given the related party nature of the arrangement. Summary operating results for the discontinued operations for the six months ended June 30, 2004 and 2003 are as follows:

	2004	2003
Revenue	$ 5,301	$ 11,289
Loss before income taxes	($ 57,268)	($ 601,072)
Provision for income taxes	--	--
Net loss	($ 57,268)	($ 601,072)

4. Income taxes

NNBP has accumulated a loss of approximately $7.5 million for income tax purposes, which can be used to offset future taxable income through 2024.

Estimated future tax benefit	$ 2,950,000
Valuation allowance	(2,950,000)
Estimated future tax benefit	$ --

5. Stockholders' deficit

Preferred stock:

The holder(s) of preferred shares are entitled to receive non-cumulative dividends not to exceed $.10 per share when and as declared by the Board of Directors. In the event of any liquidation, dissolution or winding down of the company, either voluntary or involuntary, the holder(s) of each preferred share shall be entitled to be paid on an amount equal to $4.00 per share. In the event that the Company authorizes the redemption of all or any preferred shares, the redemption price shall be $4.30 per share. The preferred shares are convertible at any time into common at the ratio of 44.11 common shares to one preferred share. Holders of preferred shares have a right to cast eight votes per preferred share and the right to elect fifty percent of the authorized members of the board of directors.

NANOBAC PHARMACEUTICALS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004
(UNAUDITED)

5. Stockholders' deficit (continued)

Common stock:

During January 2004, 4.5 million shares were issued to affiliates of the Company's Chairman and CEO as a bonus associated with the finalization of the bankruptcy. The Company recognized an expense of $2.6 million in connection with this stock issuance which is the approximate fair value of the stock on the issuance date.

6. Related Party Transactions:

Stockholder Loan

An entity controlled by the Chairman and Chief Executive Officer (who are also the largest stockholders of NNBP), has loaned NNBP approximately $7.2 million as of June 30, 2004. These loans bear interest at 5% and are due on demand. Interest expense for the above loans for the six months ended June 30, 2004 was approximately $167,000.

License Agreement

During February 2004, NNBP entered into a licensing agreement with Pegasus Worldwide, Inc. ("Pegasus") to market one of NNBP's over the counter products. NNBP's Chief Financial Officer is a director of Pegasus. Under the terms of the license agreement, NNBP was due $75 for each unit of product sold. For the three and six months ended June 30, 2004, NNBP recognized revenue of $29,925 and $46,800, respectively. Effective June 1, 2004, this license agreement was cancelled and NNBP is selling this product directly to customers.

Royalty Agreement

The Company was a party to a royalty agreement with the former majority owner of LABS who, along with his spouse, own approximately 24.4 million common shares of NNBP. Under the terms of the royalty agreement, this stockholder would receive an annual fee of $50,000 plus ten percent of gross sales from applicable products. For the six months ended June 30, 2004, approximately $30,000 has been expensed in relation to this royalty agreement. As of June 30, 2004, accrued expenses include approximately $150,000 payable to this stockholder for current and prior royalty agreements. On March 16, 2004, the U.S. Patent Office printed Patent 6,706,290 "Methods for Eradication of Nanobacteria". With the approval of this patent, management believes that the above royalty agreement is not valid and no amounts will ultimately be due under the above royalty agreement.

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

Business

We are dedicated to improving people's health through the detection and eradication of Nanobacterium sanguineum (Nanobacteria). Our research is establishing the role of Nanobacteria in pathologic calcification, particularly in heart disease. Our intellectual property covers methods for the detection, growth and treatment of Nanobacteria and is being leveraged to develop novel companion diagnostic and therapeutic products to detect and treat nanobacterial infections. We are also exploring commercialization opportunities in the bio-industrial and bio-medical markets.

About Nanobacteria - Nanobacteria are cell-walled microorganisms with a diameter of 50 to 500 nanometers, 1/100th the size of the smallest previously known bacteria. They have nucleic acid and we believe are the smallest self-replicating organism ever detected. Nanobacteria were first discovered in 1988 by a Finnish researcher, and Nanobac co-Founder Olavi Kajander, M.D., Ph.D. Dr. Neva Ciftcioglu joined his team in 1991 and their corroborated work with Nanobacterium sanguineum has put them at the forefront of research into this medically important pathogen. Their research was the first to establish that blood-borne Nanobacteria forms slow-growing calcified colonies in arteries and organs.

The existence of Nanobacteria has been disputed by several members in the scientific community. We are continuing to conduct studies to support the existence of Nanobacteria. Commercialization Strategy- We are continuing efforts to fully characterize Nanobacteria and clarify its role in disease. We are also working on the following portfolio of diagnostic and therapeutic products focused on Nanobacteria and diseases of pathological calcification.

1. Diagnostics - We have developed two blood tests to detect the presence of nanobacterial infection. We expect to file a 510k or PMA with the US Federal Food and Drug Administration (FDA) for our Nano-Capture Antigen and Nano-Sero IgG ELISA assays, and are in the process of transferring manufacturing to a U.S. based GMP manufacturing facility. Recent studies have shown a statistically significant correlation between the presence of antibodies to nanobacteria and coronary artery calcification (CAC). CAC is the deposition of calcium plaque in the arteries of the heart. High CAC scores are associated with increased risk of coronary artery disease (CAD).

2. Therapeutics - We are in the process of implementing a clinical strategy to develop novel therapies against nanobacterial infections. Currently, we offer a combination of supplements that are designed to help break down the hydroxylapatite shell that encapsulates Nanobacteria, which may make the pathogen more susceptible to antimicrobial therapy. Preliminary results demonstrate that our combination of supplements, along with the antibiotic Tetracycline HCL, may reduce coronary calcium scores. However, further studies are required and the preliminary results may be incorrect. To date, no drugs have demonstrated the ability to significantly decrease coronary calcium scores.

3. Other Applications - Since Nanobacteria have been isolated from biologics and bio-medical devices, we are also exploring commercial opportunities to detect and eradicate nanobacterial infection or contamination in the bio-medical and bio-industrial markets as follows:

    - Bio Medical: Vaccines and blood products
    - Bio-industrial: Implantable durable medical devices and medical exam equipment.

Disease Markets - Nanobacteria may be implicated in a variety of human diseases associated with pathological calcification including coronary artery disease, kidney stones, polycystic kidney disease, prostatitis and cancers with calcium. Treatment costs associated with these diseases represent over $350 billion of total healthcare spending. Most significant amongst this list is cardiovascular disease. Cardiovascular disease represents 27% of all physician visits and 26% of all physician scripts in the United States. Coronary artery disease (CAD) is the most common form of heart disease. CAD begins as coronary artery calcification that leads to atherosclerosis before developing into CAD.
Background

Nanobac Pharmaceuticals, Incorporated, (f/k/a Nanobac Pharmaceuticals, Inc.) ("we", "our", "us" the "Company", "AMER", "NNBP") was formed as a Florida corporation during June, 1994. At that time, our corporate name was National Diagnostics, Inc. and through our wholly-owned subsidiaries, we provided diagnostic imaging services through several outpatient centers in Florida. During 1998, we changed our corporate name to American Enterprise.Com, Corp.

On May 1, 2001, American Enterprise.Com, Corp filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code. On November 20, 2002, we emerged from bankruptcy when the Middle District of Florida Court confirmed AMER's Plan of Reorganization (the "Confirmed Plan" or "Plan"). During the two-year period of our bankruptcy we conducted no activities except those matters required to complete the bankruptcy process. During the period May 1 2001 through November 20, 2002, administrative fees including legal, accounting and consulting relating to the bankruptcy proceedings and maintenance of AMER were paid by our Chairman of the Board and Chief Executive Officer.

During December 2002, we acquired HealthCentrics, Inc., a privately-held Florida corporation in exchange for 17.7 million shares of stock. After this acquisition, the former shareholders of HealthCentrics owned 88.7% of AMER. We

accounted for the acquisition of HealthCentrics using the reverse-merger accounting method. Essentially this method of accounting mandates that the financial statements of the acquired company, HealthCentrics, reflect our financial position.

We acquired 100% of NanobacLabs Pharmaceuticals, Inc. ("LABS") in a series of transactions which is summarized as follows:

Date	Percentage Acquired	Shares of NNBP Exchanged
June 4, 2003	74.4%	24,400,000
June 5, 2003 through July 21, 2003	20.2%	6,598,000
October 27, 2003	5.4%	3,240,000
	100.0%	34,238,000

During November 2003, we acquired 65% of Nanobac OY ("OY"). The remaining 35% was acquired in January 2004 and March 2004 in exchange for 10 million shares of NNBP plus $500,000 to be paid in cash. OY is located in Kuopio, Finland and was created in partnership with the Finnish government. Prior to the acquisition, Nanobac OY provided scientific research and diagnostic technology for nanobacteria. Nanobac OY holds US and EU patents for methods for eradication of nanobacteria [US Patent application No. 09/347,189 US printed expected in Feb 2004; EP 1094711].

Current Developments

Disposition of HealthCentrics - Pursuant to a Share Purchase Agreement dated March 30, 2004, we sold our entire interest in HealthCentrics, Inc. to Escape Velocity of Tampa Bay, Inc. ("Escape Velocity") in exchange for consideration of $250,000. We decided in October 2003 to divest our HealthCentrics Business Unit to focus exclusively on the development of our Nanobac business unit. We actively searched for a buyer of our HealthCentrics business unit from October 2003 through March 2004 without success.

Escape Velocity is an affiliate of NNBP as it is controlled by our Chairman and CEO. The consideration paid by Escape Velocity was in the form of a reduction of its loan due from NNBP. We believe that the sale price of $250,000 is an arm's length transaction. At December 31, 2003, the book value of HealthCentrics' assets was less than $10,000 (primarily cash and receivables), while HealthCentrics liabilities to non-affiliates were approximately $500,000 (primarily accounts payable and accrued expenses). As a result of the above transaction, we realized a one-time gain of approximately $750,000. Given the related party nature of the transaction, the gain is treated as a capital contribution in 2004.

Current Developments

Acquisition of Minority Interest of Nanobac OY -Pursuant to a Closing Agreement dated November 5, 2003, we acquired 65% of OY. During 2004, we entered into the following employment agreements, which included provisions to acquire the remaining 35% of OY in exchange for 10 million shares of NNBP valued at $5.7 million:

- Executive Employment Agreement between Nanobac Pharmaceuticals, Inc., and E. Olavi Kajander, MD, PhD, an individual dated January 15, 2004.

- Executive Employment Agreement between Nanobac Pharmaceuticals, Inc. and Neva Ciftcioglu, PhD, an individual dated March 31, 2004.

An additional $350,000 is payable to the sellers at the later of two years or when NNBP raises $5 million of capital. The issuance of the above shares is included in our stockholder's deficit as of June 30, 2004. Upon the conclusion of the above transaction, we own 100% of OY.

Valuation of LABS - During March 2004, we completed our valuation of LABS. As a result, we reduced goodwill and deferred tax liability by $2.2 million from the balances reported at December 31, 2003. This reduction is based on the availability of net operating loss carryforwards offsetting the impact of deferred tax liabilities related to the acquisition of identifiable intangible assets.

Stock Issuances to Officers - From May 2001 through November 2002, the Company was in bankruptcy. Throughout bankruptcy, the Chairman, Secretary and CEO (collectively "NNBP Officers") funded the Company's administrative costs and provided management to the Company. During 2003, the Board of Directors authorized the issuance of stock in satisfaction of the $750,000 liability. The liability was to be settled through the issuance of up to 75.0 million shares of the Company's stock. The 75.0 million shares were based on the $750,000 at the then value of the stock ($.01 per share average price during the bankruptcy period). This obligation has been recorded at $750,000 (based on the value at the measurement date) although shares were issued periodically throughout 2003. Certain shares were issued as preferred shares (at an equivalent value based on the conversion ratio of $44.11 per share) as the authorized shares of the Company did not permit such issuance. During 2004, the number of authorized shares was increased to 250,000,000, at which time preferred stock was converted to 35,048,445 shares of Common stock.

During January 2004, 4.5 million shares were issued to affiliates of our Company's Chairman and CEO as a bonus associated with the finalization of the bankruptcy. We recognized an expense of $2.6 million in connection with this stock issuance which is the approximate fair value of the stock on the issuance date.

Management Changes - On July 23, 2004, Alexander Edwards resigned as Chief Executive Officer and John Stanton assumed the role of Chief Executive Officer. Mr. Edwards will continue as a member of the Board of Directors. Mr. Stanton also continues to serve as the Chairman of the Board of Directors and Chief Financial Officer. In addition, during July 2004, we terminated our relationship with Think Equity as our investment banker.

Change of Name - During April 2004, we announced a name change from Nanobac Pharmaceuticals, Incorporated to Nanobac Life Sciences, Inc. to become effective upon approval by the shareholders.

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

Results of Operation

The following table presents the percentage of period-over-period dollar change for the line items in our Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2004 and 2003. These comparisons of financial results are not necessarily indicative of future results.

	Three Months ended June			Six Months ended June		
	2004	2003		2004	2003	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue	$73,564	$77,637	-5%	$105,949	$77,637	36%
Cost of revenue	13,616	60,463	-77%	20,805	60,463	-66%
Gross Profit	59,948	17,174	249%	85,144	17,174	396%
Gross Profit percentage	81%	22%		80%	22%	

Selling, general and administrative	508,837	140,822	261%	4,043,262	1,076,268	276%
Research and development	637,841	21,731	2835%	1,116,166	21,731	5036%
Depreciation and amortization	210,426	21,129	896%	368,539	21,129	1644%
Operating loss	(1,297,156)	(166,508)	679%	(5,442,823)	(1,101,954)	394%
Other income (Expense)	(87,083)	277	NM	(163,388)	277	NM
Loss from continuing operations	(1,384,238)	(166,231)	733%	(5,606,211)	(1,101,677)	409%
Discontinued Operations	0	(302,435)	NM	(57,268)	(601,072)	-90%
Net loss	($1,384,238)	($468,666)	195%	($5,663,479)	($1,702,749)	233%

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

Revenue

Revenue for the three and six months ended June 30, 2004 is summarized as follows:

	Three Months ended June 30, 2004	Three Months ended June 30, 2003	Six Months ended June 30, 2004	Six Months ended June 30, 2003
<S>	<C>	<C>	<C>	<C>
Nanobac Supplement:				
License revenue	$29,925	$67,686	$46,800	$67,686
Direct sales to customers	25,211		25,211	
Nanobac TX				
Diagnostic products	18,428	9,951	33,938	9,951
	$73,564	$77,637	$105,949	$77,637

During December 2003, we voluntarily discontinued offering NanobacTX(TM), which accounted for approximately 80% of our revenue for the year ended December 31, 2003. Accordingly, our revenue for the first half of 2004 was significantly reduced from the level experienced in the last three quarters of 2003. During February 2004, we licensed a new product to a third party. Effective June 2004, the above license agreement was cancelled and we initiated sales of this product directly to customers under the name of Nanobac Supplement. While we anticipate that revenue from Nanobac Supplement will replace the revenue we lost from discontinuance of Nanobac TX, we are not able to determine if this will actually occur during 2004. We are also in the process of accelerating our research and developing new products for better patient acceptance and compliance with governmental regulations.

Revenue for the three and six months ended June 30, 2003 of $77,637, represented one month of sales of Nanobac TX and other products subsequent to our acquisition of LABS in June 2003.

Cost of revenue

Cost of revenue consists of direct materials, testing services (for diagnostic products) and shipping. As a percentage of revenue, cost of revenue was approximately 20% for the three and six months ended June 30, 2004 compared to 78% for the three and six months ended June 30, 2003. Cost of revenue for 2003 included a $30,000 fixed lab fee for our diagnostic products. This fee significantly increased our cost of revenue as a percentage of revenue. This fixed lab fee was eliminated in October 2003 and replaced with a variable cost structure.

In addition, the lower cost of revenue in 2004 was due in part to the 2004 license revenue having no direct costs. During June 2004, this licensing agreement was terminated and we initiated sales of Nanobac Supplement directly to customers, which should result in higher future revenue and cost of revenue.

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

Gross Profit

Gross profit as a percentage or revenue was approximately 80% for the three and six months ended June 30, 2004 compared to 22% for the three and six months ended June 30, 2003. The increase in gross profit percentage is attributable to the 2004 license revenue having no costs and the existence of $30,000 of fixed lab costs in 2003. which were not incurred in 2004. We anticipate gross profit as a percentage of revenue to be approximately 65% in the future.

Selling, General and Administrative

Approximately 60% of selling, general and administrative ("SG&A") expenses are comprised of payroll, travel and professional fees. Other significant SG&A expenses include facility rental, insurance, and public company expenses (primarily professional fees and investor relations costs).

SG&A expenses for the six months ended June 30, 2004 and June 30, 2003 include a $2.6 million charge and a $750,000 charge, respectively for stock issuances to our officers associated with services performed during the period of the bankruptcy. SG&A expenses, excluding the above charges, are summarized as follows:

	Three Months ended June		Six Months ended June	
	2004	2003	2004	2003
SG&A as reported	$508,837	$140,822	$4,043,262	$1,076,268
Less charges for stock issuances	--	--	(2,562,750)	(750,000)
SG&A expenses net of charges for stock issuances	$508,837	$140,822	$1,480,512	$326,268

The increase in SG&A, net of charges for stock issuances, is primarily attributable to the acquisitions of LABS and OY. LABS was acquired in June 2003 and OY was acquired in November 2003. Accordingly, only one month of SG&A for LABS and no months of SG&A for OY are included in the above expenses for the three and six months ended June 30, 2003. In addition, SG&A expenses for the six months ended June 30, 2004 include $150,000 of signing bonuses with the execution of employment agreements for key scientific personnel and $225,000 for professional fees in connection with our annual audit, annual reporting and other public company costs.

SG&A expenses for HealthCentrics are included in "Discontinued Operations".

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

Research and Development

Research and development ("R&D") expenses were approximately $638,000 and $1.1 million for the three and six months ended June 30, 2004, respectively.

Approximately 60% of R&D expenses are for payroll and medical director fees and approximately 25% of R&D expenses are for research studies. Remaining R&D expenses include patents, facilities, travel and other lab expenses.

There were minimal R&D expenses for the six months ended June 30, 2003 as LABS was acquired at the end of the quarter and OY was acquired subsequent to June 30, 2003. R&D expenses for HealthCentrics are included in "Discontinued Operations"

We intend to continue to expand our R&D investment in the coming year.

Depreciation and amortization

Approximately 95% of depreciation and amortization are related to the amortization of Product Rights and Patents acquired in the June 2003 acquisition of LABS and the November 2003 acquisition of OY.

Other income (expense)

Other income (expense) for the three and six months ended June 30, 2004 includes $85,000 and $167,000, respectively of interest expense on the stockholder loan. In addition, other income and expense include foreign currency loss of $1,000 for the three months ended June 30, 2004 and a foreign currency gain of $5,300 for the six months ended June 30, 2004.

Loss from Continuing Operations

Loss from continuing operations for the three months ended June 30, 2004 was $1.4 million compared to $166,000 for the three months ended June 30, 2003. The net loss from continuing operations for the three months ended June 30, 2004 includes $616,000 of additional R&D expenses and $189,000 of additional amortization expenses. In addition, Operations for the three months ended June 30, 2003 include only one month of operations of LABS which was acquired in June 2003.

Loss from continuing operations for the six months ended June 30, 2004 was $5.6 million compared to $1.1 million for the six months ended June 30, 2003. Excluding one-time charges for stock issuances to our officers and executives of $2.6 million in 2004 and $750,000 in 2003, the loss from continuing operations increased approximately $2.7 million for the six months ended June 30, 2004 compared to the six months ended June 30, 2003. This increase reflects $1.1 million of additional R&D costs, $347,000 of additional amortization costs and an additional five months of LABS SG&A expenses in 2004 compared to 2003.

We are experiencing significant losses as we conduct research and development related to nanobacteria and launch our products and services. We believe it will take several months before we will earn meaningful revenue to offset our expenses and there is no assurance that we will be able to accomplish this goal. As a result of the losses, we are dependent on our Chairman, CEO and other investors to provide sufficient cash sources to fund our operations.

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

Discontinued Operations

During October 2003, we decided to divest our HealthCentrics' business unit to focus exclusively on our nanobacteria business unit. We were unsuccessful in finding a buyer in 2003 for this business unit. During March 2004, this business unit was sold to an affiliate of the Chairman and CEO for consideration of $250,000 plus assumption of net liabilities of approximately $499,000. Our gain on disposal of approximately $749,000 is accounted for as a capital contribution given the related party nature of the arrangement.

As a result of our decision to dispose of the HealthCentrics business unit, the operations of HealthCentrics are retroactively removed from continuing operations and disclosed as a single line item on the statements of operations. The loss from discontinued operations for the six months ended June 30, 2004 and 2003 is summarized as follows:

	2004	2003

Revenue	$5,301	$11,289
Cost of revenue	9,208	28,051
Gross profit (loss)	(3,907)	(16,762)
Selling, general & administrative	53,361	418,672
Research and development	--	165,638
Net loss	($57,268)	($601,072)

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

Liquidity and Capital Resources

Since emerging from Chapter 11, we have financed our activities primarily from advances from affiliates of our Chairman and CEO, and from other shareholders, and from private placements of NNBP's common stock. As of June 30, 2004 the stockholder loan was approximately $7.2 million, which is due to Escape Velocity, an affiliate of our Chairman and CEO.

As of June 30, 2004, we had total assets of $11.4 million of which only $73,000 were current assets. At June 30, 2004, we had total current liabilities of $8.6 million, a working capital deficit of $8.6 million and a retained deficit of $10.8 million.

Net cash used in operations was $1.8 million for the six months ended June 30, 2004. The negative cash flow from operations reflects the $5.7 million net loss for the period offset by the non-cash charge of $2.6 million for common stock issued to executives and affiliates of our officers, depreciation and amortization of approximately $369,000 and an increase in current liabilities of approximately $774,000.

Net cash provided by investing activities was approximately $171,000 for the six months ended June 30, 2004, which reflects the receipt of $200,000 from an option exercise related to the acquisition of LABS offset by our purchase of fixed assets of approximately $28,000.

Net cash provided by financing activities was $1.6 million for the six months ended June 30, 2004, which is virtually entirely attributable to net advances from Escape Velocity.

We are dependent on raising additional funding necessary to implement its business plan as outlined above. Should we not be successful in raising cash from our Chairman and CEO and other investors, we are unlikely to continue as a going concern.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin ("ARB") No. 51" ("FIN 46"). FIN 46 was revised with FIN 46(R) in December 2003. It requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46(R) is effective for all entities subject to

this interpretation no later than the end of the first period that ends after March 15, 2004. The Company has reviewed the applicability of FIN 46(R) and does not currently have any entities that require consolidation under this pronouncement.

Critical accounting policies

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Forward Looking Statements

This report contains certain forward-looking statements that are based on current expectations. In light of the important factors that can materially affect results, including those set forth above and elsewhere in this report, the inclusion of forward-looking information herein should not be regarded as a representation by NNBP or any other person that the objectives or plans of NNBP will be achieved. NNBP may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to market its products and services; competitive conditions within the industry may change adversely; NNBP may be unable to retain existing key management personnel; NNBP's forecasts may not accurately anticipate market demand; and there may be other material adverse changes in NNBP's operations or business. Certain important factors affecting the forward looking statements made herein include, but are not limited to (i) achieving meaningful revenue growth to offset our expenses and (ii) accurately forecasting capital expenditures and (iii) obtaining new sources of external financing and (iv) conducting successful clinical trials supporting Dr. Kajander's theories that the human body does not recognize nanobacteria as harmful, and accordingly, nanobacteria could be the cause of pathological disease causing calcification found in multiple diseases. Assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause NNBP to alter its capital expenditure or other budgets, which may in turn affect NNBP's financial position and results of operations.

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

Risk Factors

Trends, Risks and Uncertainties

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock.

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.

Reliance on our Chairman of the Board, Chief Executive Officer and Majority Shareholder; Possible Future Dilution

We have limited working capital and are primarily relying upon borrowed funds to operate. The operations of Nanobac are generating a financial and cash loss. Throughout 2004 and 2003, affiliates of our Directors and Chief Executive Officer have provided our capital needs through loans and capital contributions.

While our Directors and CEO continue to provide for the majority of our capital requirements, they are under no obligation to continue such financing and/or strategic guidance. In the event our Directors and CEO should discontinue their support, we may have difficulty in continuing our operations. In such an event, shareholders could lose their investment in its entirety. Historically, our Directors and CEO have provided capital to us on a demand debt basis after which they may convert debt into shares of our common stock. If, in the future we require additional capital, our Directors and CEO may contribute some or all of our requirements. We anticipate that as a part of any such loan, our Directors and CEO would have rights to convert into additional shares of our common stock. In such an event and to the degree of which we require our Directors and CEO's support, shareholders may experience dilution. At present, we do not maintain key man insurance for our Directors and CEO.

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

In addition to the financial support we may receive from our Chairman and CEO, we may continue to 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.

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

Potential Incorrect Conclusions on the Existence, Detection and Eradication of Nanobacteria

Most of our future revenue is based on the existence of Nanobacteria and our ability to detect and eradicate Nanobacteria. The existence of Nanobacteria has been disputed by several members in the scientific community. If it is ultimately proved that Nanobacteria as defined by Dr. Kajander and Dr. Ciftcioglu does not exist, our existing patents and product lines may lose most of their value. Further, if Nanobacteria is proven to exist, but we are unsuccessful in leveraging our diagnostic and therapeutic products to detect and treat nanobacterial diseases, we may not generate sufficient revenue to offset our expenses.

Limited Operating History Anticipated Losses; Uncertainty of Future Results

We have a limited operating history upon which an evaluation of our Company and our prospects can be based. Our prospects must be evaluated with a view to the risks encountered by companies in early stages of development, particularly in light of the uncertainties relating to the new and evolving biolife science research which we intend to develop and market, and the acceptance of our business model. We will be incurring costs to: (i) perform research studies to prove the effectiveness of our pharmaceutical products, (ii) further develop and market our products; (iii) establish distribution relationships; and (iv) build an organization. To the extent that such expenses are not subsequently followed by commensurate revenues, our business, results of operations and financial condition will be materially adversely affected. We, therefore, cannot insure that we will be able to immediately generate sufficient revenues. We expect negative cash flow from operations to continue for the next 12 months as we continue to develop and market our business. If cash generated by operations is insufficient to satisfy our liquidity, we 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 our stockholders. Our initial operations may not be profitable, since time will be required to build our business to the point that our revenues will be sufficient to cover our total operating costs and expenses. Our reaching a sufficient level of sales revenues will depend upon a large number of factors, including availability of sufficient working capital, the number of customers we are able to attract and the costs of continuing development of our product line.

Federal Food and Drug Administration

Some or all of our products may be governed by rules and regulations established by the United States Food and Drug Administration ("FDA"). Changes in FDA

regulations and the enforcement thereof may affect our biolife science business. Furthermore, we may not be successful in filing and obtaining approval of our 510K or PMA filings with the FDA for our Nano-Capture Antigen and Nano-Sero IgG ELISA assays.

Data Obtained Through Clinical Trials.

Data obtained from pre-clinical studies and clinical trials do not necessarily predict results that will be obtained from later pre-clinical studies and clinical trials. Moreover, pre-clinical and clinical data is susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in earlier trials. The failure to adequately demonstrate the safety and/or effectiveness of an intended product under development could delay or prevent regulatory clearance of the potential drug or treatment, resulting in delays to commercialization, and could materially harm the business.

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

Acceptance of Products in the Marketplace is Uncertain.

Our future financial performance will depend, at least in part, upon the introduction and customer acceptance of our proposed treatments and products. Our treatments and products may not achieve market acceptance, and such adverse marketing results could materially harm the Company.

Competitors in the Pharmaceutical Industry May Develop Competing Technologies

Drug companies and/or other health care companies may seek to develop and market technologies which may compete with our Company's technology. While we believe that our technology regarding the prescription treatment of nanobacterial infections caused by nanobacterium sanguineum is unique, other competitors may develop similar or different treatments which may become more accepted by the marketplace.

Risk of Third Party Lawsuits.

We are exposed to potential product liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. We cannot assure potential investors that such claims will not be asserted against the Company. A successful liability claim or series of claims brought against us could have a material adverse effect on our financial condition. In addition, we may be sued by third parties who claim that our products and treatments infringe upon the intellectual property rights of others or that we have misappropriated trade secrets of others. This risk is exacerbated by the fact that the validity and breadth of claims covered in medical technology patents and the breadth and scope of trade secret protection involve complex legal and factual questions for which important legal principles are unresolved. Any litigation or claims against us, whether or not valid, could result in substantial costs, could place a significant strain on our financial resources, and could harm our reputation.

Government Regulation

Healthcare in general and the pharmaceuticals industry in particular are highly regulated markets, subject to both federal and a multitude of state regulations and guidelines. The majority of our business is still in clinical research applications and is governed by the medical community. There can be no assurance that changes to state or federal laws will not materially restrict our ability to sell our products or develop new product lines.

Intellectual Property Rights

We have a family of patents encompassing the detection and eradication of nanobacteria. There are risks inherent in any intellectual property rights in that they may be challenged as being invalid or not original. Additionally, other parties may abuse such intellectual rights, causing the Company to defend its rights.

Dependency Upon Key Technical and Scientific Personnel Who May Terminate Employment at Any Time.

Our success will depend to a significant degree upon the continued services of key technical and scientific personnel, including but not limited to E. Olavi Kajander, MD, PhD. In addition, our success may depend on our ability to attract and retain other highly skilled personnel. Competition for qualified personnel is intense, and the process of hiring and integrating such qualified personnel is often lengthy. We may be unable to recruit personnel on a timely basis, if at all. All of the Company's management and other employees may voluntarily terminate their employment with us at any time. The loss of the services of key personnel, or the inability to attract and retain additional qualified personnel, could result in delays to development, loss of sales, and/or diversion of management resources that could have a material adverse affect on the Company.

Competition

The markets in which we compete include successful and well-capitalized competitors that vary in size and scope. Principal competitors include Pfizer, Merck and other pharmaceutical companies having unique treatments for cardiovascular disease. All of these competitors are more established, benefit from greater name recognition and have substantially greater resources than us. Moreover, we could face additional competition as other established and emerging companies enter the market and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer subscriptions, reduced gross margins and loss of market share, any of which could materially adversely affect our business, financial condition and operating results. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third-parties, thereby increasing the ability of their products to address the needs of our prospective consumers. While we believe we can differentiate our product from these current and future competitors, focusing on the products' functionality, flexibility, adaptability and features, there can be no assurance that we will be able to compete successfully against current and future competitors. The failure to effectively compete would have a material adverse effect upon our business, financial condition and operating results.

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 of our control, including: the demand for our software; seasonal trends in purchasing; the amount and timing of capital expenditures and other costs relating to the development of our software; 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 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 our operating results will fall below our expectations or those of investors in some future quarter.

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

Lack of Independent Directors

We cannot guarantee 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 NNBP's stockholders and the controlling officers and/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 and By Laws 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 they reasonably believe to be in, or not opposed to, the best interests of NNBP, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations.

Continued Control by Current Officers and Directors

The present officers and directors own approximately 50% of the outstanding shares of Common Stock, and are in a position to elect all of our Directors and otherwise control NNBP, including, without limitation, authorizing the sale of equity or debt securities of NNBP, the appointment of officers, and the determination of officer's salaries. Shareholders have no cumulative voting rights.

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

Limited Market Due To Penny Stock

NNBP'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 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 NNBP'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 NNBP'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 NNBP's stockholders to resell their shares to third parties or to otherwise dispose of them.

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

Item 3: Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of June 30, 2004, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

Item 4: Quantitative and Qualitative Risk

Virtually all of our operations are conducted in the United States. However, the acquisition of Nanobac OY, which was concluded in November 2003, is structured in Euros. Accordingly, we are exposed to market risk from changes in exchange rates between the U.S. dollar and the Euro on the balance sheet of Nanobac OY and on future transactions of Nanobac OY.

We do not engage in hedging transactions and are not a party to any leveraged derivatives.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

On May 1, 2001, the Company (named American Enterprise.Com, Corp at the time) filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code. On November 20, 2002, the Middle District of Florida Court confirmed our Plan of Reorganization (the "Plan"). At the time of Plan confirmation (November 20, 2002), we had no assets and no liabilities. Administrative fees including legal, accounting and consulting were paid by Mr. John Stanton, our Chairman of the Board and Chief Executive Officer. There were no priority creditors. Equipment

leases were treated as unsecured creditors. Unsecured creditors determined to represent approximately $7,000,000 were allowed to choose between (a) a cash payment on a pro rata basis from a $50,000 unsecured claim fund, or (b) a stock payment on a pro rata basis from a 4,500,000 common share unsecured claim treasury stock fund. All unsecured creditors opted to receive a pro rata portion of the $50,000 cash unsecured claim fund. None of the unsecured creditors opted to accept any of the 4,500,000 shares allocated to the treasury stock fund. We have filed objections to a number of the unsecured creditors seeking their pro rata portion of the $50,000 cash unsecured claim fund. We are unable at this time to predict the outcome of these objections. However, the $50,000 cash unsecured claim fund has already been provided to an escrow account established for these purposes and the outcome of the objections to claims will have no further impact on us.

Item 2: Changes in Securities and Use of Proceeds

(a) Not Applicable.

(b) Not Applicable.

(c) Not Applicable

(d) Not Applicable

Item 3: Defaults upon Senior Securities

None.

Item 4: Submission of Matters to a Vote of Security Holders

On January 26, 2004, NNBP filed Articles of Amendment increasing authorized shares from 100,000,000 to 250,000,000 with the consent of the major stockholders.

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report:

Exhibit 31.1 - Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer

Exhibit 31.2 - Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer

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 - Chief Executive Officer

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 - Chief Financial Officer

(b) Reports on Form 8-K

The Registrant filed a report on Form 8-K on April 2, 2004 under Item 2 announcing its disposition of HealthCentrics.

The Registrant filed a report on Form 8-K on April 2, 2004 under Item 2 announcing the acquisition of the remaining 35% of Nanobac OY and the disclosure of employment agreements with key employees.

SIGNATURES

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

Dated: May 17, 2004 NANOBAC PHARMACEUTICALS, INCORPORATED

By: /s/ John D Stanton

John D Stanton
Chief Executive Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
31.2	Certification to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO SARBANES-OXLEY SECTION 302

I, John D. Stanton, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Nanobac Pharmaceuticals, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant 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 Registrant including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent

functions);

(a) All significant deficiencies in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial data information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: August 12, 2004

/s/ John D Stanton

John D Stanton
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SARBANES-OXLEY SECTION 302

I, John D. Stanton, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Nanobac Pharmaceuticals, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

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

(d) 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 Registrant including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this report is being prepared;

(e) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(f) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent

functions);

(c) All significant deficiencies in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial data information; and

(d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: August 12, 2004

/s/ John D. Stanton

John D. Stanton
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
Pursuant to 18 United States Code Section 1350

The undersigned hereby certifies that the Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004 of Nanobac Pharmaceuticals, Incorporated (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John D Stanton

John D Stanton
Chief Executive Officer
August 12, 2004

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

EXHIBIT 32.2

CERTIFICATION
Pursuant to 18 United States Code Section 1350

The undersigned hereby certifies that the Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004 of Nanobac Pharmaceuticals, Incorporated (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John D Stanton

John D Stanton
Chief Financial Officer
August 12, 2004

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