CLEVELAND BIOLABS INC
Form 10QSB
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

(Mark one)

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

For the Quarterly Period Ended March 31, 2007

or

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

For the transition period from______ to______ .

Commission File Number 001-12465

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

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

11000 Cedar Ave., Suite 290
CLEVELAND, OHIO 44106
(Address of principal executive offices and zip code)

(216) 229-2251
(Issuer's telephone number)

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

YES x NO ¨

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

YES ¨ NO x

As of March 31, 2007 there were 11,889,099 shares of registrant's common stock, $0.005 par value

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

CLEVELAND BIOLABS INC
10-QSB
05/15/2007

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

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

March 31, 2007 (unaudited) and December 31, 2006

ASSETS		March 31 2007 (unaudited)		December 31 2006
CURRENT ASSETS				
Cash and equivalents	$	11,968,017	$	3,061,993
Short-term investments		18,699,965		1,995,836
Accounts receivable:				
Trade		214,048		159,750
Interest		53,255		42,479
Notes Receivable - Orbit Brands		300,000		50,171
Other prepaid expenses		512,969		434,675
Total current assets		31,748,254		5,744,904
EQUIPMENT				
Computer equipment		143,426		132,572
Lab equipment		348,730		347,944
Furniture		65,087		65,087
		557,243		545,603
Less accumulated depreciation		169,677		142,011
		387,566		403,592
OTHER ASSETS				
Intellectual Property		346,170		252,978
Deposits		15,055		15,055
		361,225		268,033
TOTAL ASSETS	$	32,497,045	$	6,416,529

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

March 31, 2007 (unaudited) and December 31, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY		March 31 2007 (unaudited)		December 31 2006
CURRENT LIABILITIES				
Accounts payable:				
Trade	$	1,111,836	$	644,806
Accrued expenses		227,435		128,569
Total current liabilities		1,339,271		773,375
LONG-TERM LIABILITIES				
Milestone payables		300,000		50,000
Total long-term liabilities		300,000		50,000
STOCKHOLDERS' EQUITY				
Series B convertible preferred stock, $.005 par value				
Authorized - 10,000,000 shares at March 31, 2007				
and December 31, 2006		22,895		-
Issued and outstanding 4,579,010 and 0				
shares at March 31, 2007 and December 31, 2006, respectively				
Additional paid-in capital		28,849,983		-
Common stock, $.005 par value				
Authorized - 40,000,000 shares at March 31, 2007				
and December 31, 2006				
Issued and outstanding 11,889,099 and 11,826,389				
shares at March 31, 2007 and December 31, 2006, respectively		59,446		59,132
Additional paid-in capital		18,807,493		18,314,097
Accumulated other comprehensive income (loss)		-		(4,165)
Accumulated deficit		(16,882,043)		(12,775,910)
Total stockholders' equity		30,857,774		5,593,154
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	32,497,045	$	6,416,529

CLEVELAND BIOLABS, INC.

STATEMENT OF OPERATIONS

Three Months Ending March 31, 2007 and 2006 (unaudited)

	March 31 2007 (unaudited)	March 31 2006 (unaudited)
REVENUES		
Grant	$ 271,445	$ 453,424
Service	50,000	125,000
	321,445	578,424
OPERATING EXPENSES		
Research and Development	3,528,600	1,502,364
General and administrative	994,319	352,898
Total operating expenses	4,522,919	1,855,262
LOSS FROM OPERATIONS	(4,201,474)	(1,276,838)
OTHER INCOME (EXPENSE)		
Interest Income	96,429	29,139
Interest Expense	(1,088)	(4,446)
Total other income (expense), net	95,341	24,693
NET LOSS	$ (4,106,133)	$ (1,252,145)
DIVIDENDS ON CONVERTIBLE PREFERRED STOCK	-	(59,185)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (4,106,133)	$ (1,311,330)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS PER SHARE OF COMMON STOCK - BASIC AND DILUTED	$ (0.35)	$ (0.20)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN CALCULATING NET LOSS PER SHARE, BASIC AND DILUTED	11,854,027	6,495,408

CLEVELAND BIOLABS, INC.

STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2007 and 2006 (unaudited)

	March 31 2007 (unaudited)	March 31 2006 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,106,133)	$ (1,252,145)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	27,666	20,241
Noncash interest expense	-	4,446
Noncash salaries and consulting expense	375,301	233,031
Changes in operating assets and liabilities:		
Accounts receivable - trade	(54,298)	(119,935)
Accounts receivable - interest	(10,605)	3,894
Other prepaid expenses	(78,293)	(3,380)
Deposits	-	(2,271)
Accounts payable	467,030	259,485
Deferred revenue	-	(100,293)
Accrued expenses	98,866	16,293
Milestone payments	250,000	-
Total adjustments	1,075,667	311,511
Net cash (used in) provided by operating activities	(3,030,466)	(940,634)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/(purchase) of short-term investments	(16,699,965)	800,000
Issuance of notes receivable	(250,000)	-
Purchase of equipment	(11,640)	(87,243)
Costs of patents pending	(93,193)	(9,946)
Net cash (used in) provided by investing activities	(17,054,798)	702,811
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred stock	30,020,984	-
Financing costs	(1,148,106)	(164,777)
Dividends	-	(23)
Issuance of common stock	118,410	-
Net cash (used in) provided by financing activities	28,991,288	(164,800)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	8,906,024	(402,622)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	3,061,993	1,206,462
CASH AND EQUIVALENTS AT END OF PERIOD	$ 11,968,017	$ 803,840

Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	-	$	-
Cash paid during the year for income taxes	$	-	$	-
Supplemental schedule of noncash financing activities:				
Issuance of stock options to employees, consultants, and independent board members	$	375,301	$	233,032
Issuance of common stock dividend to preferred shareholders	$	-	$	183,552

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CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2006 to December 31, 2006 and to

March 31, 2007 (unaudited)

	Stockholders' Equity Common Stock			
	Shares	Amount	Additional Paid-in Capital	Penalty Shares
Balance at January 1, 2006	6,396,801.00	31,984	3,338,020	-81,125
Issuance of shares - previously accrued penalty shares	54,060	270	80,855	(81,125)
Issuance of shares - stock dividend	184,183	922	367,445	-
Issuance of penalty shares	15,295	76	(76)	-
Issuance of shares - initial public offering	1,700,000	8,500	10,191,500	-
Fees associated with initital public offering	-	-	(1,890,444)	-
Conversion of preferred stock to common stock	3,351,219	16,756	5,291,385	-
Conversion of notes payable to common stock	124,206	621	312,382	-
Issuance of options	-	-	506,078	-
Exercise of options	625	3	2,810	-
Issuance of warrants	-	-	114,032	-
Proceeds from sales of warrants	-	-	110	-
Net loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses)				
arising during period	-	-	-	-
Less reclassification adjustment for (gains) losses				
included in net loss	-	-	-	-
Comprehensive loss				
Balance at December 31, 2006	11,826,389	$ 59,132	$ 18,314,097	$ -
Issuance of options	-	-	375,301	-
Issuance of Series B Preferred Shares	-	-	-	-
	-	-	-	-

Fees associated with Series B Preferred offering							
Exercise of options	18,505		93		29,907		-
Exercise of warrants	44,205		221		88,188		-
Net Loss	-		-		-		-
Other comprehensive income							
Unrealized gains (losses) on short term investments							
Changes in unrealized holding gains (losses)							
arising during period	-		-		-		-
Less reclassification adjustment for (gains) losses							
included in net loss	-		-		-		-
Comprehensive loss							
Balance at March 31, 2007	11,889,099	$	59,446	$	18,807,493	$	-

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CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2006 to December 31, 2006 and to

March 31, 2007 (unaudited)

	Stockholders' Equity			
		Preferred Stock		
	Shares	Amount	Additional Paid-in Capital	Penalty Shares
Balance at January 1, 2006	3,051,219	15,256	4,932,885	360,000
Issuance of shares - previously accrued penalty shares	240,000	1,200	358,800	(360,000)
Issuance of shares - stock dividend	-	-	-	-
Issuance of penalty shares	60,000	300	(300)	-
Issuance of shares - initial public offering	-	-	-	-
Fees associated with initital public offering	-	-	-	-
Conversion of preferred stock to common stock	(3,351,219)	(16,756)	(5,291,385)	-
Conversion of notes payable to common stock	-	-	-	-
Issuance of options	-	-	-	-
Exercise of options	-	-	-	-
Issuance of warrants	-	-	-	-
Proceeds from sales of warrants	-	-	-	-
Net loss	-	-	-	-
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses)				
arising during period	-	-	-	-
Less reclassification adjustment for (gains) losses				
included in net loss	-	-	-	-
Comprehensive loss				
Balance at December 31, 2006	-	$ -	$ -	$ -
Issuance of options	-	-	-	-
Issuance of Series B Preferred Shares	4,288,712	21,444	29,999,540	-
Fees associated with Series B Preferred offering	290,298	1,451	(1,149,557)	-

Exercise of options	-		-		-		-
Exercise of warrants	-		-		-		-
Net Loss	-		-		-		-
Other comprehensive income							
Unrealized gains (losses) on short term investments							
Changes in unrealized holding gains (losses)							
arising during period	-		-		-		-
Less reclassification adjustment for (gains) losses							
included in net loss	-		-		-		-
Comprehensive loss							
Balance at March 31, 2007	4,579,010	$	22,895	$	28,849,983	$	-

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CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2006 to December 31, 2006 and to

March 31, 2007 (unaudited)

	Stockholders' Equity			
	Other Comprehensive Income/(Loss)	Accumulated Deficit	Total	Comprehensive Income (Loss)
Balance at January 1, 2006	(17,810)	(5,184,856)	3,556,604	
Issuance of shares - previously accrued penalty shares	-	-	-	
Issuance of shares - stock dividend	-	(368,410)	(43)	
Issuance of penalty shares	-	-	-	
Issuance of shares - initial public offering	-	-	10,200,000	
Fees associated with initital public offering	-	-	(1,890,444)	
Conversion of preferred stock to common stock	-	-	-	
Conversion of notes payable to common stock	-	-	313,003	
Issuance of options	-	-	506,078	
Exercise of options	-	-	2,813	
Issuance of warrants	-	-	114,032	
Proceeds from sales of warrants	-	-	110	
Net loss	-	(7,222,644)	(7,222,644)	(7,222,644)
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses)				
arising during period	6,678	-	6,678	$ 6,678
Less reclassification adjustment for (gains) losses				
included in net loss	6,967	-	6,967	$ 6,967
Comprehensive loss				$ (7,208,999)
Balance at December 31, 2006	$ (4,165)	$ (12,775,910)	$ 5,593,154	
Issuance of options	-	-	375,301	
Issuance of Series B Preferred Shares	-	-	30,020,984	

Fees associated with Series B Preferred offering	-	-	(1,148,106)	
Exercise of options	-	-	30,000	
Exercise of warrants	-	-	88,409	
Net Loss	-	(4,106,133)	(4,106,133)	(4,106,133)
Other comprehensive income				
Unrealized gains (losses) on short term investments				
Changes in unrealized holding gains (losses)				
arising during period	-	-	-	$ -
Less reclassification adjustment for (gains) losses				
included in net loss	4,165	-	4,165	$ 4,165
Comprehensive loss				$ (4,101,968)
Balance at March 31, 2007	$ -	$ (16,882,043)	$ 30,857,774	

CLEVELAND BIOLABS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

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

Note 2. Summary of Significant Accounting Policies

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

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

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

D. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements, which generally require payment within 30 days. Management estimates an allowance for doubtful accounts which is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. There is no allowance for doubtful accounts as of March 31, 2007 and December 31, 2006.
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E. Notes Receivable - On December 7, 2006 the Company entered into an agreement with the Orbit Brands Corporation (Borrower) and its subsidiaries whereby the Company would lend up to $150,000 each on two promissory notes to the Borrower at a rate of 5% per annum with a maturity date of one year. The proceeds of the loans shall be used by the Borrower solely to cover expenses associated with converting the notes into common stock and preparing the lending motions for the bankruptcy case involving the Borrower. The loans are convertible into common stock of the Borrower and its subsidiaries. As of March 31, 2007 the balance outstanding was $300,000 plus accrued interest of $2,363.

F. Equipment - Equipment is stated at cost and depreciated over the estimated useful lives of the assets (generally five years) using the straight-line method. Leasehold improvements are depreciated on the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized and depreciated. Depreciation expense was $27,666, and $20,241 for the quarters ended March 31, 2007 and 2006 respectively.

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

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

A portion of this intellectual property is owned by the Cleveland Clinic Foundation ("CCF") and granted to the Company through an exclusive licensing agreement. As part of the licensing agreement, CBL agrees to bear the costs associated with the preparation, filing and maintenance of patent applications relating to this intellectual property. If the patent application is approved, the costs paid by the Company are amortized on a straight-line basis over the shorter of 17 years or the anticipated useful life of the patent. If the patent application is not approved, the costs associated with the preparation and filing of the patent application by the Company on behalf of CCF will be expensed as part of selling, general and administrative expenses. Gross capitalized patents pending costs are $306,302 and $222,789 on behalf of CCF for 13 patent applications as of March 31, 2007 and December 31, 2006, respectively. All of the 13 CCF patent applications are still pending approval.

The Company also has submitted three patent applications as a result of intellectual property exclusively developed and owned by the Company. If the patent applications are approved, costs paid by the Company associated with the preparation, filing, and maintenance of the patents will be amortized on a straight-line basis over the shorter of 17 years or the anticipated useful life of the patent. If the patent application is not approved, the costs associated with the preparation and filing of the patent application will be expensed as part of selling, general and administrative expenses at that time. Gross capitalized patents pending costs were $39,869 and $30,189 on behalf of the Company for three patent applications as of March 31, 2007 and December 31, 2006, respectively. The patent applications are still pending approval.

I. Lines of Credit - The Company has a working capital line of credit that is fully secured by short-term investments. This fully-secured working capital line of credit carries an interest rate of prime minus 1%, a borrowing limit of $500,000, and expires on July 1, 2007. At March 31, 2007, there were no outstanding borrowings under this credit facility.

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

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

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

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

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

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

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

O. 2006 Equity Incentive Plan - On May 26, 2006, the Company's Board of Directors adopted the 2006 Equity Incentive Plan (“Plan”) to attract and retain persons eligible to participate in the Plan, motivate participants to achieve long-term Company goals, and further align participants' interests with those of the Company's other stockholders. The Plan expires on May 26, 2016 and provides for up to 2,000,000 shares of stock to be awarded. For the year ended December 31, 2006, 45,000 options were granted to independent board members. On February 14, 2007, these 2,000,000 shares were registered with the SEC by filing a Form S-8 registration statement. For the quarter ended March 31, 2007, there were 119,500 options granted under this Equity Incentive Plan, and as of March 31, 2007 there were 164,500 stock options granted under this Equity Incentive Plan in total.

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

The fair value of each stock option granted is estimated on the grant date using the Black-Scholes option valuation model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect the Company's experience. The Company uses a risk-free rate based on published rates from the St. Louis Federal Reserve at the time of the option grant, assumes a forfeiture rate of zero, assumes an expected dividend yield rate of zero based on the Company's intent not to issue a dividend in the foreseeable future, uses an expected life based on safe harbor method, and computes an expected volatility based on similar high-growth, publicly-traded, biotechnology companies. The Company does not include the use of its own stock in the volatility calculation at this time because of the brief history of the stock as a publicly traded security on a listed exchange. Compensation expense is recognized using the straight-line amortization method for all stock-based awards.

During the quarter ended March 31, 2007, the Company granted 119,500 stock options pursuant to stock award agreements to certain employees and key consultants. The Company has adopted the safe harbor method for projecting the expected life of the options. The assumptions used to value these option and warrant grants using the Black-Scholes option valuation model are as follows:

	Quarter Ended March 31, 2007
Risk-free interest rate	4.50 - 4.72%
Expected dividend yield	0%
Expected life	5 - 6 years
Expected volatility	72.07 - 76.29%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes valuations model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and warrants have characteristics significantly different from those of traded derivative securities, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options and warrants.

The Company recognized a total of $375,301 in expense related to options for the quarter-ended March 31, 2007.

The weighted average, estimated grant date fair values of stock options granted during the quarter-ended March 31, 2007 was $9.09.

The following tables summarize the stock option activity for the quarters ended March 31, 2007 and March 31, 2006, respectively.

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