

SANGUI BIOTECH INTERNATIONAL INC
Form 10-Q
November 13, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2014**

Commission file number: 0-21271

SANGUI BIOTECH INTERNATIONAL, INC.

(Exact name of Registrant as specified in Its Charter)

Colorado
(State or Other Jurisdiction of Incorporation or
Organization)

84-1330732
(I.R.S. Employer Identification No.)

Alfred-Herrhausen-Str. 44, 58455 Witten, Germany

(Address of Principal Executive Offices)

011-49-2302-915-204

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(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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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

Yes No

As of November 7, 2014, there were 144,223,056 shares of the issuer's Common Stock, no par value, issued and outstanding.

SANGUI BIOTECH INTERNATIONAL, INC.

Quarterly Report on Form 10-Q

For the Quarterly Period Ended September 30, 2014

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PART I - FINANCIAL INFORMATION

Item 1 - Consolidated Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited condensed consolidated balance sheet as of September 30, 2014 and the audited balance sheet as of June 30, 2014 and our unaudited condensed consolidated statements of operations for the three month periods ended September 30, 2014, and 2013 are attached hereto and incorporated herein by this reference.

SANGUI BIOTECH INTERNATIONAL, INC.
Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

	For the Three Months Ended September 30,	
	2014	2013
REVENUES	\$ 73,740	\$ 26,527
COST OF SALES	240	204
GROSS MARGIN	73,500	26,323
OPERATING EXPENSES		
Research and development	93,103	36,308
Depreciation and amortization	-	114
General and administrative	188,442	181,605
Total Operating Expenses	281,545	218,027
LOSS FROM OPERATIONS	(208,045)	(191,704)
OTHER INCOME (EXPENSE)		
Interest expense	(909)	-
Total Other Income (Expense)	(909)	-
Loss before income taxes and non-controlling interest	208,954	(191,704)
Provision for income taxes	-	-
NET LOSS	(208,954)	(191,704)
Less: Net loss attributable to non-controlling interest	(14,786)	(19,502)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (194,168)	\$ (172,202)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	1,668	30,593
Total Other Comprehensive Income (Loss)	1,668	30,593
COMPREHENSIVE LOSS	\$ (207,286)	\$ (161,111)
BASIC AND DILUTED LOSS PER SHARE-SANGUI SHAREHOLDERS	\$ (0.00)	\$ (0.00)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	143,157,723	134,242,409

SANGUI BIOTECH INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

(unaudited)

	For the Three Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (208,954)	\$ (191,704)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	-	116
Common stock issued for services	16,192	26,400
Changes in operating assets and liabilities		
Trade accounts receivable	(90,748)	1,042
Royalties receivable	-	(9,636)
Prepaid expenses and other current assets	27,804	1,407
Tax refunds receivable	20,418	(1,244)
Accounts payable and accrued expenses	19,633	(18,636)
Related parties accounts payable	7,980	2,395
Net Cash Used in Operating Activities	(207,675)	(189,860)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable, related parties	33,165	-
Net Cash Provided by Investing Activities	33,165	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock issued for cash	115,593	353,180
Net Cash Provided by Financing Activities	115,593	353,180
EFFECTS OF EXCHANGE RATES	20,765	16,745
NET INCREASE (DECREASE) IN CASH	(38,152)	180,065
CASH AT BEGINNING OF PERIOD	98,148	47,764
CASH AT END OF PERIOD	\$ 59,996	\$ 227,829
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 909	\$ -
Income Taxes	\$ -	\$ -
NON CASH INVESTING AND FINANCING ACTIVITIES	\$ -	\$ -

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared without audit in accordance

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Sangui Biotech International, Inc., incorporated in Colorado in 1995, and its subsidiary, Sangui

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Consolidation

The consolidated financial statements include the accounts of Sangui BioTech International, Inc.

Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at pe

Exchanges rates used for the preparation of the consolidated balance sheet as of September 30, 20

As of September 30, 2014	0.7883
As of June 30, 2104	0.7325
Period average September 30, 2014	0.7882
Period average September 30, 2013	0.7551

Risk and Uncertainties

The Company's line of future pharmaceutical products (artificial oxygen carriers or blood substit

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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Going Concern

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The accompanying consolidated financial statements have been prepared assuming the Company will c

Cash and Cash Equivalents

The Company maintains its cash in bank accounts in Germany. Cash and cash equivalents include tim

Research and Development

Research and development costs are charged to operations as they are incurred. Legal fees and oth

Revenue Recognition

Product sales revenue is recognized when the sales amount is determined, shipment of goods to the

Basic and Diluted Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing income (loss) available to common

Comprehensive Income (Loss)

Total comprehensive income (loss) represents the net change in stockholders' equity during a peri

NOTE 3 - COMMITMENTS AND CONTINGENCIES

Litigation

The Company may, from time to time, be involved in various legal disputes resulting from the ordi

Indemnities and Guarantees

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During the normal course of business, the Company has made certain indemnities and guarantees und

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NOTE 4 NOTES RECEIVABLE, RELATED PARTIES

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On May 15, 2012, the Company entered into a note receivable with a shareholder for \$63,658. The n

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NOTE 5 CAPITAL STOCK

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Preferred Stock The Company is authorized to issue 10,000,000 shares of preferred stock. No pre

Common Stock The Company is authorized to issue 250,000,000 shares of no par value common stock

During the three months ended September 30, 2014, the Company issued 172,800 shares of its common

NOTE 6 SUBSEQUENT EVENTS

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On October 1, 2014 the Company issued 100,000 shares of its common stock for services valued at

In accordance with ASC 855-10, the Company s management has reviewed all material events and then

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Item 2 - Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Forward-looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this quarterly report. Some of the information in this quarterly report contains forward-looking statements, including statements related to anticipated operating results, margins, growth, financial resources, capital requirements, adequacy of the Company's financial resources, trends in spending on research and development, the development of new markets, the development, regulatory approval, manufacture, distribution, and commercial acceptance of new products, and future product development efforts. Investors are cautioned that forward-looking statements involve risks and uncertainties, which may affect our business and prospects, including but not limited to, the Company's expected need for additional funding and the uncertainty of receiving the additional funding, changes in economic and market conditions, acceptance of our products by the health care and reimbursement communities, new development of competitive products and treatments, administrative and regulatory approval and related considerations, health care legislation and regulation, and other factors discussed in our filings with the Securities and Exchange Commission.

GENERAL

Our mission is the development of novel and proprietary pharmaceutical, medical and cosmetic products. We develop our products through our German subsidiary, Sangui GmbH. Currently, we are seeking to market and sell our products through partnerships with industry partners worldwide.

Our focus has been the development of oxygen carriers capable of providing oxygen transport in humans in the event of acute and/or chronic lack of oxygen due to arterial occlusion, anemia or blood loss whether due to surgery, trauma, or other causes, as well as in the case of chronic wounds. We have thus far focused our development and commercialization efforts on such artificial oxygen carriers by reproducing and synthesizing polymers out of native hemoglobin of defined molecular sizes. In addition, we have developed external applications of oxygen transporters in the medical and cosmetic fields in the form of sprays for the healing of chronic wounds and of gels and emulsions for the regeneration of the skin. We also market a wound dressing that shows outstanding properties in the support of wound healing, which we call Chitoskin.

SanguiBioTech GmbH holds distribution rights for our Chitoskin wound pads for the European Union and various other countries. A European patent has been granted for the production and use of improved Chitoskin wound pads.

Our current key business focuses are: (a) selling our existing cosmetics and wound management products by way of licensing through distribution partners, or by way of direct sale, to end users; (b) identifying additional industrial and distribution partners for our patents, production techniques, and products; and, (c) obtaining the additional certifications on our products in development.

Artificial Oxygen Carriers

We develop products based on polymers of purified natural porcine hemoglobin with oxygen carrying abilities that are similar to those of native hemoglobin. These are (1) oxygen carrying blood additives, and (2) oxygen carrying blood volume substitutes.

During the first quarter of our 2014 financial year, the company entered into an agreement with a German university research institution aimed at carrying out a series of animal tests as part of its preparations to enter the preclinical testing of hemoglobin based artificial oxygen carriers targeting the remediation of ischemic conditions in human patients.

During the first quarter of our 2015 financial year, we began together with Excellence Cluster Cardio-Pulmonary System (ECCPS) and TransMIT Gesellschaft für Technologietransfer mbH (TransMIT) to investigate therapeutic approaches to treating septic shock and acute respiratory distress syndrome (ARDS). The approach adopted here by Sangui, ECCPS and TransMIT presupposes that self-perpetuating septic shock, that has so far been highly resistant to treatment, can be interrupted by Sangui's artificial haemoglobin-based oxygen carrier, which would ultimately lower mortality rates. The preclinical trials commenced at ECCPS investigate the effect of various haemoglobin preparations on the oxygen supply of a number of organs in septic shock models and ARDS.

Also during the first quarter we were notified that the period for objection against European Patent EP 2550973, (Wound Spray) elapsed without any objection being raised. The patent, therefore, has become effective and legally binding.

According to regulatory requirements, all drugs must complete preclinical and clinical trials before approval (e.g. Federal Drug Administration approval) and market launch. The Company's management believes that the European and FDA approval process will take at a minimum several years to complete.

Nano Formulations for the Regeneration of the Skin

Healthy skin is supplied with oxygen both from the inside as well as through diffusion from the outside. A lack of oxygen will cause degenerative alterations, ranging from premature aging, to surface damage, and even as extensive as causing open wounds. The cause for the lack of oxygen may be a part of the normal aging process, but it may also be caused by burns, radiation, trauma, or a medical condition. Impairment of the blood flow, for example caused by diabetes mellitus or by chronic venous insufficiency, can also lead to insufficient oxygen supply and the resulting skin damage.

Sales of this series have remained at a low level throughout the first quarter of our 2014 fiscal year. It is the strategy of the company to find industry partners ready to acquire or license this product range as a whole.

Chitoskin Wound Pads

Usually, normal (primary) wounds tend to heal over a couple of days without leaving scars following a certain sequence of phases. Burns and certain diseases impede the normal wound healing process, resulting in large, hardly healing (secondary) wounds which only close by growing new tissue from the bottom. Wound dressings serve to safeguard the wound with its highly sensitive new granulation tissue from mechanical damage as well as from infection. Using the natural polymer chitosan, Sangui s Chitoskin wound dressings show outstanding properties in supporting wound healing.

It is the strategy of the company to find industry partners ready to acquire or license this product range as a whole.

Hemospray Wound Spray

SanguiBioTech GmbH has developed a novel medical technology supporting the healing of chronic wounds. Lack of oxygen supply to the cells in the wound ground is the main reason why those wounds lose their genuine healing power. Based on its concept of artificial oxygen carriers, our wound spray product bridges the watery wound surface and permits an enhanced afflux of oxygen to the wound ground.

In December 2010, SanguiBioTech GmbH established SastoMed GmbH, a joint venture company with SanderStrothmann GmbH of Georgsmarienhütte, Germany. SanguiBioTech GmbH has granted SastoMed GmbH global distribution rights. SastoMed GmbH started to distribute the product in Germany after having obtained the CE mark authorizing the distribution of the wound spray in the countries of the European Union in April 2013.

In August, 2013, Sangui BioTech GmbH and SastoMed GmbH cordially adjusted the existing sales strategy. In consideration of corresponding contributions the existing licensing contract was partially complemented resulting in

the following conditions: As licensor SanguiBioTech GmbH is awarded a fixed licensing fee as a percentage of each and every external revenues incurred by SastoMed from sales of the Granulox product (based on SastoMed selling prices). The percentage ranges in the uppermost zone of what is usually granted in the pharmaceutical and medical products industries. In addition and complementing this basic agreement the percentage will be permanently increased by one fourth of the current rate as soon as cumulated sales revenues at SastoMed will have exceeded the total of 50,000,000.

Since December, 2013, international distribution outside Germany was initiated in collaboration with local partners in fifteen European and three Latin American countries.

FINANCIAL POSITION

Our current assets decreased approximately \$41,050 from June 30, 2014 to \$219,537 at September 30, 2014. This is mainly attributed to decreases in notes receivables and cash.

Our net property and equipment had been depreciated to \$-0- as of June 30, 2014. During the first quarter of our 2015 financial year no investments in this area were carried out.

We funded our operations primarily through our existing cash reserves and cash received from the issuance of shares of common stock. Primarily due to the net loss for the quarter, our stockholders' equity decreased by \$75,501 from \$7,276 at June 30, 2014 to a stockholders' deficit of \$68,225 at September 30, 2014.

RESULTS OF OPERATIONS

Three months ended September 30, 2014 and 2013:

REVENUES - Revenues during the three months ended September 30, 2014 amounted to \$73,740. In the comparable period of 2013 we had revenues of \$26,527. Revenues as of the period covered by this report include accrued receivables from the licensing agreement with SastoMed GmbH. Cost of sales in the third quarter of the 2014 financial year amounted to \$240 compared to \$204 in 2013. Our royalty revenues are increasing as the SastoMed GmbH realizes more sales of our licensed product.

RESEARCH AND DEVELOPMENT - Research and development expenses increased \$56,795 to \$93,103 in the first quarter of our 2014 financial year from \$36,308 in the comparable period of the previous year. This is mainly attributed to enhanced R&D activities in preparing and carrying out the animal tests aimed at investigating new indications for our artificial oxygen carriers.

GENERAL AND ADMINISTRATIVE - General and administrative expenses increased by \$6,837 to approximately \$188,442 in the quarter ended September 30, 2014, from approximately \$181,605 in the respective quarter of the previous year.

DEPRECIATION AND AMORTIZATION - Depreciation decreased \$114 to approximately \$-0- in the quarter from approximately \$114.

NET LOSS - As a result of the above factors, our consolidated net loss attributable to common stockholders was \$194,168, or \$(0.00) per common share, for the three months ended September 30, 2014, compared to \$172,202, or \$(0.00) per common share, during the comparable period in our 2014 financial year.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended September 30, 2014, net cash used in operating activities increased to approximately \$207,675, from approximately \$189,860 in the corresponding period of the previous year. The decrease is primarily due to the net loss for the period. The increase in trade accounts receivable was offset by changes in prepaid expenses, tax refunds receivables, and accounts payable.

We had a working capital deficit of approximately \$68,225 at September 30, 2014, a decrease in working capital of approximately \$75,501 from June 30, 2014. A significant part of our current assets consists of receivables from related and unrelated parties while the company has no financial liabilities. At September 30, 2014, we had cash of approximately \$59,996. We will need substantial additional funding to fulfill our business plan and we intend to explore financing sources for our future development activities. No assurance can be given that these efforts will be successful.

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by § 229.10(f)(1) and are not required to provide the information under this item.

Item 4 - Controls and Procedures

Disclosure Controls and Procedures

As of the date of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar

functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- (b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

The Company is not aware of pending claims or assessments which may have a material adverse impact on the Company's financial position or results of operations.

Item 1a - Risk Factors

We are a smaller reporting company and are not required to provide the information under this item.

Item 2 - Unregistered Sales of Equity Securities and Use Of Proceeds

During the three months ended September 30, 2014, the Company issued 172,800 shares of its common stock for services to unrelated parties at an average price of \$0.09 per share. Additionally the Company sold 1,650,000 shares of its common stock for cash to two individuals at an average price of \$0.07 per share. No underwriters were used. The securities were sold pursuant to an exemption from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933. The certificate representing the shares contained a restricted legend.

Subsequent to September 30, 2014, on October 1, 2014, the company issued 100,000 shares of its common stock for services to one entity at a price of \$0.07 per share. No underwriters were used. The securities were sold pursuant to an exemption from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933. The certificate representing the shares contained a restricted legend.

Item 3 - Defaults Upon Senior Securities

None.

Item 5 - Other Information

None.

Item 6 - Exhibits

1. Financial Statements. The unaudited condensed consolidated Balance Sheet of Sangui Biotech International, Inc. as of September 30, 2014 and the audited balance sheet as of June 30, 2014, the unaudited condensed consolidated Statements of Operations for the three month periods ended September 30, 2014 and 2013, and the unaudited condensed consolidated Statements of Cash Flows for the three-month periods ended September 30,

2014 and 2013, together with the notes thereto, are included in this Quarterly Report on Form 10-Q.

3. **Exhibits.** The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K.

Exhibit

Number Description of Exhibit

31.01	Certification of CEO Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith
31.02	Certification of CFO Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith
32.01	Certification Pursuant to Section 1350 of Title 18 of the United States Code, filed herewith

SIGNATURES

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

SANGUI BIOTECH INTERNATIONAL, INC.

Dated: November 12, 2014

/s/ Thomas Striepe

By: Thomas Striepe

Chief Executive Officer

Dated: November 12, 2014

/s/ Joachim Fleing_____

By: Joachim Fleing

Chief Financial Officer