

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011.

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-27545

**QUICK-MED TECHNOLOGIES, INC.**  
(Exact Name of Registrant as Specified in its Charter)

**Nevada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**65-0797243**  
(I.R.S. Employer Identification No.)

**902 N.W. 4<sup>th</sup> Street**  
**GAINESVILLE, FLORIDA 32601**  
(Address of Principal Executive Offices) (Zip Code)

**(888) 835-2211**  
(Registrant's Telephone Number, Including Area Code)

**N/A**  
(Former Name, Former Address and Former Fiscal Year, If Changes Since Last Report)

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, non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" or "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 May 6, 2011, there were 34,838,297 shares of common stock, par value \$0.0001 per share, outstanding.

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QUICK-MED TECHNOLOGIES, INC.

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**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****QUICK-MED TECHNOLOGIES, INC.  
CONDENSED BALANCE SHEETS  
(UNAUDITED)****ASSETS**

	<b>March 31,</b>	<b>June 30,</b>
	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents	\$ 665,761	\$ 628,026
Accounts receivable	260,355	336,077
Total current assets	<u>926,116</u>	<u>964,103</u>
Property and equipment, net	<u>2,018</u>	<u>7,004</u>
Other assets:		
Prepaid expenses	8,867	9,657
Intangible asset, net	378,343	366,282
Total other assets	<u>387,210</u>	<u>375,939</u>
Total assets	<u>\$ 1,315,344</u>	<u>\$ 1,347,046</u>

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

Current liabilities:		
Accounts payable	\$ 563,321	\$ 611,018
Unearned revenue	132,722	117,383
Accrued expenses	70,865	73,191
Note payable - director	234,529	221,617
Convertible note payable - officer	-	109,474
Current maturity of note payable - officer	14,000	-
Total current liabilities	<u>1,015,437</u>	<u>1,132,683</u>
License payable	160,000	160,000
Long-term liability - note payable - officer	97,783	-
Long-term liability - convertible note payable	250,000	255,041
Long-term liability - convertible note payable - related party	1,137,371	1,074,133
Long-term liability - convertible note payable - director	5,257,975	5,018,331
Total liabilities	<u>7,918,566</u>	<u>7,640,188</u>
Commitments and contingencies		
Stockholders' deficit:		
Common stock, \$0.0001 par value; 100,000,000 authorized shares; 34,288,297 and 31,357,297 shares issued and outstanding at March 31, 2011 and June 30, 2010	3,429	3,136
Additional paid-in capital	14,463,759	13,576,122
Outstanding stock options	4,015,461	3,786,351
Accumulated deficit	<u>(25,085,871)</u>	<u>(23,658,751)</u>

Total stockholders' deficit	(6,603,222)	(6,293,142)
Total liabilities and stockholders' deficit	<u>\$ 1,315,344</u>	<u>\$ 1,347,046</u>

See Notes to Unaudited Condensed Financial Statements

**QUICK-MED TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>				
Product sales	\$ 69,085	\$ 186,398	\$ 363,568	\$ 310,706
Royalty and license fees	77,766	63,319	232,067	118,858
Research and development service	10,000	115,000	193,750	162,500
	<u>156,851</u>	<u>364,717</u>	<u>789,385</u>	<u>592,064</u>
<b>Expenses:</b>				
Cost of sales	5,010	7,899	22,400	14,243
Research and development	247,639	278,216	725,008	921,034
General and administrative expenses	328,019	395,221	1,068,452	1,068,951
Licensing and patent expenses	60,729	70,975	209,142	202,511
Depreciation and amortization	16,936	17,627	51,403	53,230
Total operating expenses	<u>658,333</u>	<u>769,938</u>	<u>2,076,405</u>	<u>2,259,969</u>
Operating loss	<u>(501,482)</u>	<u>(405,221)</u>	<u>(1,287,020)</u>	<u>(1,667,905)</u>
<b>Other income (expense):</b>				
Other income, net	-	-	195,583	-
Interest income	449	9	1,435	33
<b>Interest expense:</b>				
Note payable	(110,865)	(90,231)	(337,117)	(252,483)
Convertible debt beneficial conversion feature	-	(904,117)	-	(1,102,867)
Total other income (expense)	<u>(110,416)</u>	<u>(994,339)</u>	<u>(140,099)</u>	<u>(1,355,317)</u>
Loss before provision (benefit) for income taxes	<u>(611,898)</u>	<u>(1,399,560)</u>	<u>(1,427,119)</u>	<u>(3,023,222)</u>
Provision (benefit) for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (611,898)</u>	<u>\$ (1,399,560)</u>	<u>\$ (1,427,119)</u>	<u>\$ (3,023,222)</u>
Net loss per share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.10)</u>
<b>Weighted average common</b>				
shares outstanding - basic and diluted	<u>33,088,353</u>	<u>31,309,130</u>	<u>31,930,910</u>	<u>31,228,688</u>

See Notes to Unaudited Condensed Financial Statements

**QUICK-MED TECHNOLOGIES, INC.**  
**CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT**  
**FOR THREE MONTHS ENDED MARCH 31, 2011**  
**(UNAUDITED)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Outstanding</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>			
Balance, December 31, 2010	31,432,297	\$ 3,144	\$ 13,664,364	\$ (24,473,973)	\$ 3,945,114	\$ (6,861,351)
Stock issuance for cash	2,856,000	285	799,395	-	-	799,680
Stock-based compensation	-	-	-	-	70,347	70,347
Net loss, January 1, 2011 to March 31, 2011	-	-	-	(611,898)	-	(611,898)
Balance, March 31, 2011	<u>34,288,297</u>	<u>\$ 3,429</u>	<u>\$ 14,463,759</u>	<u>\$ (25,085,871)</u>	<u>\$ 4,015,461</u>	<u>\$ (6,603,222)</u>

See Notes to Unaudited Condensed Financial Statements

**QUICK-MED TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010**  
**(UNAUDITED)**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net loss	\$ (1,427,119)	\$ (3,023,222)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	51,403	53,230
Stock granted for services	18,750	75,000
Stock-based compensation	238,610	509,474
Interest expense on convertible debt beneficial conversion	-	1,102,867
Contribution of services	50,000	-
(Increase) decrease in:		
Accounts receivable	75,722	(334,566)
Prepaid expenses	790	(1,315)
Increase (decrease) in:		
Accounts payable	(47,697)	53,826
Accrued interest	303,907	174,648
Other current liabilities	13,012	221,017
Net cash used in operating activities	<u>(722,622)</u>	<u>(1,169,041)</u>
Cash flows from investing activities:		
Increase in intangible assets	<u>(58,478)</u>	<u>(11,443)</u>
Net cash used in investing activities	<u>(58,478)</u>	<u>(11,443)</u>
Cash flows from financing activities:		
Proceeds from stock issuance	799,680	-
Proceeds from exercise of stock options	10,000	42,450
Increase in notes payable	-	250,000
Increase in notes payable - related party	-	678,000
Increase in notes payable - officer	13,155	-
Decrease in notes payable - officer	(4,000)	-
Increase in notes payable - director	-	1,015,000
Net cash provided by financing activities	<u>818,835</u>	<u>1,985,450</u>
Net decrease in cash and cash equivalents	37,735	804,966
Cash and cash equivalents at beginning of period	628,026	41,216
Cash and cash equivalents at end of period	<u>\$ 665,761</u>	<u>\$ 846,182</u>
<b>Supplementary Information:</b>		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash disclosures of investing and financing activities:		
Debt forgiveness by shareholders	<u>\$ 50,000</u>	<u>\$ -</u>
Stock-based compensation	<u>\$ 238,610</u>	<u>\$ 509,474</u>
Interest expense on beneficial conversion	<u>\$ -</u>	<u>\$ 1,102,867</u>

See Notes to Unaudited Condensed Financial Statements



**QUICK-MED TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - DESCRIPTION OF BUSINESS**

The accompanying unaudited condensed financial statements of Quick-Med Technologies, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management of the Company, the accompanying unaudited financial statements contain all the adjustments (which are of a normal recurring nature) necessary for a fair presentation. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2011. For further information, refer to the financial statements and the footnotes thereto contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2010, as filed with the Securities and Exchange Commission.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has continuing losses from operations, negative working capital and an accumulated deficit that raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

All highly liquid investments purchased with maturity of three months or less from the time of purchase are considered to be cash equivalents.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

**Intangible Assets**

The costs of obtaining license agreements along with the costs to defend the patents underlying the license agreements are capitalized and amortized using the straight-line method over the estimated useful lives of the underlying license agreements. The costs of obtaining and maintaining new patents are capitalized and amortized using the straight-line method over the estimated useful lives of the patents. The cost of patents in process is not amortized until the patent is issued.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation on property and equipment is computed using the straight-line method over the expected useful lives of the assets.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable as of March 31, 2011 represents amounts due from its customers and is reported on the balance sheet reduced by an allowance for doubtful accounts for estimated losses resulting from receivables not considered to be collectible.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

### **Research and Development Costs**

Research and development costs are expensed as incurred.

### **Earnings Per Share**

Basic net loss per common share is computed by dividing net loss applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options and warrants. For the periods ended March 31, 2011 and 2010, 14,982,678 and 14,770,135 diluted common stock equivalents, respectively, have been excluded from the calculation of diluted earnings per share, as their inclusion would have been anti-dilutive.

### **Fair Value Measurements**

During the first quarter of fiscal year 2009, the Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly referenced as SFAS No. 157, *Fair Value Measurements*), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. This new accounting standard does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various other accounting pronouncements.

This accounting standard establishes a hierarchy for information and valuations used in measuring fair value, which is broken down into three levels. Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities. Level 2 valuations are based on inputs, other than quoted prices included within Level 1, that are observable, either directly or indirectly. Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The Company also adopted FASB ASC 825, *Financial Instruments* (formerly referenced as SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*), which allows companies to choose to measure eligible financial instruments and certain other items at fair value that are not required to be measured at fair value. The Company has not elected the fair value option for any eligible financial instruments.

### **Revenue Recognition**

The Company's revenues consist of the following sources: product sales, royalty and license fees, research and development service.

Under the agreement for product development, manufacturing and distribution (the "Agreement") with BASF, the Company shares proportionately on the net sales and related expenses in accordance with the terms of the Agreement. The Company recognizes revenue of its royalties from the sale of products by BASF when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable.

The Company recognizes royalty fee income based on the net sales of Bioguard® product by our licensee, Derma Sciences Inc. in accordance with the specified terms of the license agreement.

The Company recognizes revenue of its research and development service including the small business innovation research program and the US Army medical research program based on the research work performed in accordance with the program requirements or statements of work for the joint development agreements.

The Company also recognizes revenue from the non-refundable exclusivity license fee derived from its licensees on a pro rata basis over the term of the related exclusive license agreements. Further, the Company recognizes the exclusive option fee as revenue on a pro rata basis over the term of the related exclusive option agreement.

### **Unearned Revenue**

The amount of unearned revenue represents the exclusive option fee, the license fee, and advance royalty fee yet to be earned on a pro rata basis over the exclusive option period of the related option and license agreements.

### **Other Income**

The Company recognizes its Qualifying Therapeutic Discovery Project (QTDP) grant from the U.S. government in connection with the advancement of the development of the NIMBUS technology for wound dressings and wound drains net of the expenses associated with the grant application in other income.

### Stock Compensation

The Company records share-based payment awards at fair value on the grant date of the awards, based on the estimated number of awards that are expected to vest. The fair value of stock options was determined using the Black-Scholes option-pricing model. The fair value of the restricted stock awards was based on the closing price of the Company's common stock on the date of grant.

### Concentration of credit risk of financial instruments

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable. As of March 31, 2011, the Company's cash levels did exceed the federally insured limit by approximately \$471,000. As of March 31, 2011, most of the Company's accounts receivable were collected other than the receivable derived from the U.S. Army.

The credit risk of the accounts receivable is considered limited given the customers' credit rating. There were no write-offs of uncollectible receivables during the year ended June 30, 2010.

### Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

### Recently Issued Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". The objective of this ASU is to address diversity in practice about the presentation of pro forma revenue and earnings disclosure requirements for business combinations, and specifies that a public entity that presents comparative financial statements should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU is effective prospectively for business combinations on or after January 1, 2011. As this ASU is limited to supplemental disclosures, its adoption will not have an impact on the Company's financial condition or results of operations.

In December, 2010, the FASB issued ASU 2010-28, "Intangibles—Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". The objective of this ASU is to address diversity in practice in the application of goodwill impairment testing by entities with reporting units with zero or negative carrying amounts, eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. This ASU is effective for interim periods after January 1, 2010. The adoption of this ASU may require the Company to report goodwill impairment charges sooner than under current practice.

**NOTE 3 – STOCK OPTIONS AND WARRANTS**

The Company adopted a qualified equity incentive plan (the “Plan”) on March 4, 2001. Under the Plan the Company is authorized to grant up to 3,000,000 shares of common stock. On December 13, 2004, the shareholders approved the Plan and ratified the amendment to increase the total number of shares to be granted under the Plan from 3,000,000 to 4,000,000 effective November 1, 2004. On November 13, 2007 the shareholders ratified the amendment to increase the total number of shares to be granted under the Plan from 4,000,000 to 6,000,000.

On November 17, 2009, the Board of Directors (the “Board”) granted 681,785 stock options to the board members, employees, consultants as payments for their services and in recognition of individual performance for the year ended June 30, 2009. In addition, the Board granted 248,564 warrants payments to consultants for payments of their services and incentive performance awards. Of 681,785 stock options grant, approximately 115,428 were awarded to the board members for their services and were vested on the date of grant. Of 248,564 warrants issued, 99,977 warrants were vested immediately on the grant date. The remainder 566,357 stock options and 148,587 warrants were vested one-third immediately, one-third were vested on November 17, 2010 and the remaining one-third will be vested on November 17, 2011, assuming the person receiving the equity awards is employed or being utilized by the Company at the time of vesting. The exercise price of those stock options and warrants is \$0.77 per share. The weighted average grant date fair value of options and warrants was \$0.48 per share based on the Black-Scholes option-pricing model. The options and warrants expire five years from the date of grant. On March 31, 2010, approximately 23,631 options were forfeited.

On October 27, 2008, the Board granted 1,335,102 stock options to the board members, employees, consultants as payments for their services and in recognition of individual performance for the year ended June 30, 2008. In addition, the Board granted 705,302 warrants payments to consultants for payments of their services and incentive performance awards. Further, 60,000 shares of restricted common stock were issued to a consultant as payment for services. Of the 1,335,102 stock options grant, approximately 464,102 were awarded to the board members for their services and were vested on the date of grant. Of the 705,302 warrants issued, 240,302 warrants were vested immediately on the grant date.

The remainder 871,000 stock options and 465,000 warrants were vested one-third immediately, one-third were vested on October 27, 2009 and the remaining one-third were vested on October 27, 2010, assuming the person receiving the equity awards is employed or being utilized by the Company at the time of vesting. The exercise price of those stock options and warrants is \$0.20 per share, which was the closing price of the common stock on the date of grant. The weighted average grant date fair value of options and warrants was \$0.19 per share based on the Black-Scholes option-pricing model. The options and warrants expire five years from the date of grant.

On April 18, 2008, the Board granted 148,571 shares of restricted common stock as payment for the services rendered by the board members for the year ended June 30, 2007 for those elected to receive common stocks and all shares were immediately vested. In addition, the Board granted 1,074,666 stock options to the board members, employees, consultants as payments for their services and in recognition of individual performance for the year ended June 30, 2007. The stock options were vested one-third immediately, one-third were vested on April 17, 2009 and the remaining one-third were vested on April 17, 2010, assuming the person receiving the equity awards is employed by the Company at the time of vesting. The exercise price of those stock options is \$0.42 per share, which was the closing price of the common stock on the date of grant. The weighted average grant date fair value of options was \$0.32 per share based on the Black-Scholes option-pricing model. The options and warrants expire five years from the date of grant.

On August 6, 2007, the Board granted 484,056 non-qualified stock options to the Chief Executive Officer (“CEO”) at an exercise price of \$0.75 per share. These options were fully vested and immediately exercisable at the date of grant. In addition, the Board granted 1,452,167 non-qualified stock options at an exercise price of \$0.74 per share on September 25, 2007, as part of the CEO’s employment agreement. The second stock options are vested and become exercisable 1/16<sup>th</sup> of the total 1,452,167 options on each three-month anniversary beginning on June 11, 2007. The average grant date fair value of the options was \$0.46 per share based on the Black-Scholes option-pricing model. These options expire five years from the date of grant.

On December 20, 2006, the Company issued 790,770 stock options to board members, management, employees, and consultants for their services. These options have an exercise price of \$1.05 per share. The stock options were vested one-third immediately, one-third were vested on December 20, 2007 and the remaining one-third were vested on December 20, 2008, assuming the person receiving the equity awards is employed by the Company at the time of vesting. The weighted average grant date fair value of options was \$0.69 per share based on the Black-Scholes option-pricing model. The options expire five years from the date of grant.

On September 9, 2005, the Board granted 130,000 shares of restricted common stock as payment for the services rendered by the board members for the year ended June 30, 2005, and all shares were immediately vested. In addition, the Board granted 710,000 stock options and 175,000 warrants to the employees and directors and consultants, respectively, in recognition of individual performance for the year ended June 30, 2005. The stock options and warrants were vested one-third immediately, one-third were

vested on July 1, 2006 and the remaining one-third were vested on July 1, 2007. The exercise price of those stock options and warrants is \$0.80 per share, which was the closing price of the common stock on the date of grant. The weighted average grant date fair value of options was \$0.72 per share based on the Black-Scholes option-pricing model. The options and warrants expire five years from the date of grant. On September 9, 2010, approximately 545,000 options and 175,000 had expired.

During the period ended March 31, 2010, 145,000 options were exercised at \$0.17 per share or an aggregate price of approximately \$24,650 under the July 2004 stock options agreement. In addition, 55,000 options were exercised at \$0.20 per share or an aggregate price of approximately \$11,000 under the October 2008 stock options agreement, and 10,000 options were exercised at \$0.68 per share or an aggregate price of \$6,800.

During the period ended March 31, 2011, 50,000 options were exercised at \$0.20 per share or an aggregate price of approximately \$10,000 under the October 2008 stock options agreement.

**NOTE 3 – STOCK OPTIONS AND WARRANTS, continued**

The weighted average grant date fair value of options and warrants granted during the three and nine months ended March 31, 2011 and 2010 were estimated on the date of grant using the Black-Scholes option-pricing model with the assumptions noted in the following table. Expected volatilities are based on historical volatility of common stock. The expected term of the options and warrants represents the period of time that options and warrants granted are expected to be outstanding and is derived from historical terms.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Risk free interest rate	3%	3%	3%	3%
Expected life (years)	5	5	5	5
Expected volatility	91%	91%	91%	91% to 161%
Expected dividends	None	None	None	None

A summary of options for the periods ended March 31, 2011 and 2010 is shown below:

	March 31, 2011		March 31, 2010	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding at beginning of period	5,389,270	\$ 0.55	4,966,116	\$ 0.53
Granted	-	-	681,785	0.77
Exercised	(50,000)	0.20	(210,000)	0.20
Forfeited	-	-	(23,631)	0.77
Expired	(545,000)	0.80	(10,000)	0.17
Outstanding at end of period	4,794,270	\$ 0.57	5,404,270	\$ 0.55
Exercisable at end of period	4,585,519		3,803,034	
Available for issuance at end of period	666,318		106,318	

The following is a summary of warrants granted, exercised, canceled and outstanding involving the grants in the periods ended March 31, 2011 and 2010:

	March 31, 2011		March 31, 2010	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding at beginning of period	1,228,803	\$ 0.40	980,239	\$ 0.31
Granted	-	-	248,564	0.77
Exercised	-	-	-	-
Expired	(248,149)	0.81	-	-
Outstanding at end of period	980,654	\$ 0.47	1,228,803	\$ 0.40
Exercisable at end of period	949,698		1,057,902	





**NOTE 4 – NOTES PAYABLE****Short-Term Note**

<u>Director</u>	<u>Maturity</u>	<u>Interest</u>	<u>Conversion</u>	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
		<u>Rate</u>	<u>Price</u>		
Note Payable	2011	8%	N/A	\$ 215,000	215,000
Accrued interest				19,529	6,617
Total				\$ 234,529	\$ 221,617

**Long-Term Note**

<u>Related Party</u>	<u>Maturity</u>	<u>Interest</u>	<u>Conversion</u>	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
		<u>Rate</u>	<u>Price</u>		
Senior Convertible Note	2013	8%	\$ 0.60	\$ 1,053,000	\$ 1,053,000
Accrued interest				84,371	21,133
Total				\$ 1,137,371	\$ 1,074,133
<u>Others</u>					
Senior Convertible Notes	2014	8%	\$ 1.00	250,000	250,000
Accrued interest				-	5,041
Total				\$ 250,000	\$ 255,041
<u>Officer</u>					
Note Payable	2013	8%	N/A	\$ 95,155	\$ 100,000
Accrued interest				2,628	9,474
Total				\$ 97,783	\$ 109,474

**NOTE 4 – NOTES PAYABLE, continued****Long-Term Note**

		<b>Interest</b>	<b>Conversion</b>	<b>March</b>	<b>June</b>
	<b><u>Maturity</u></b>	<b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>31, 2011</u></b>	<b><u>30, 2010</u></b>
<b><u>Director</u></b>					
2003 Senior					
Convertible Note	2013	6%	\$ 0.38	\$1,268,625	\$1,268,625
Senior Convertible					
Note	2013	8%	\$ 0.74	208,955	208,955
2007 Senior					
Convertible Note	2013	8%	\$ 0.74	375,000	375,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.55	50,000	50,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.51	50,000	50,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.40	50,000	50,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.40	50,000	50,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.34	50,000	50,000
2007 Senior					
Convertible Note 2	2013	8%	\$ 0.32	50,000	50,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.32	50,000	50,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.45	70,000	70,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.40	75,000	75,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.33	50,000	50,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.42	75,000	75,000
2008 Senior					
Convertible Note 1	2013	8%	\$ 0.40	50,000	50,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.29	50,000	50,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.20	50,000	50,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.38	50,000	50,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.35	135,000	135,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.25	100,000	100,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.35	50,000	50,000
2008 Senior					
Convertible Note 2	2013	8%	\$ 0.25	50,000	50,000
2008 Senior					
Convertible Note 3	2013	8%	\$ 0.36	50,000	50,000
2008 Senior					
Convertible Note 3	2013	8%	\$ 0.19	50,000	50,000
2008 Senior					
Convertible Note 3	2013	8%	\$ 0.31	50,000	50,000
2009 Senior					
Convertible Note 1	2013	8%	\$ 0.18	35,000	35,000
2009 Senior					
Convertible Note 1	2013	8%	\$ 0.37	35,000	35,000

2009 Senior						
Convertible Note 1	2013	8% \$	0.43	35,000	35,000	
2009 Senior						
Convertible Note 1	2013	8% \$	0.43	35,000	35,000	
2009 Senior						
Convertible Note 1	2013	8% \$	0.45	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.48	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.47	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.42	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.53	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.58	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.52	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.46	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.55	35,000	35,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.63	50,000	50,000	
2009 Senior						
Convertible Note 2	2013	8% \$	0.60	45,000	45,000	
2009 Senior						
Convertible Note 3	2013	8% \$	0.60	600,000	600,000	
Accrued interest				<u>950,395</u>	<u>710,751</u>	
Total				<u>\$5,257,975</u>	<u>\$5,018,331</u>	
Total long term note payable				<u>\$6,743,129</u>	<u>\$6,456,979</u>	
Total debt				<u>\$6,977,658</u>	<u>\$6,678,596</u>	

**NOTE 4 – NOTES PAYABLE, continued**

On December 16, 2010, the Company issued a promissory note to an officer for the principal amount of \$113,155, which consisted of a total 100,000 principal balance of four prior convertible notes together with unpaid accrued interest thereon of \$13,155. This note has an annual interest rate of 8%, a maturity date of December 31, 2013. The outstanding principal amount will be paid at a rate of \$1,000, \$2,000 and \$3,000 each month for the first 12 months, the second 12 months and the third 12 months, respectively. As of March 31, 2011, the Company paid an aggregate principal amount of \$3,000 to the officer. The remaining outstanding principal balance and accrued interest will be paid on the maturity date.

On March 31, 2010, the Company issued a senior convertible promissory note to a major shareholder for the principal amount of \$1,053,000, which consisted of \$600,164 in cash, \$375,000 principal balance of a prior senior convertible note together with unpaid accrued interest thereon of \$77,836. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2009 Note 3 to the Chairman and the senior convertible notes totaling \$250,000 as described below. This note has an annual interest rate of 8%, a maturity date of December 31, 2013. This note has the conversion price of \$0.60 per share of common stock. The Company has recorded approximately \$859,950 as an interest expense as a result of the beneficial conversion feature.

On March 31, 2010, the Company issued two senior convertible promissory notes totaling \$250,000 to third parties. These senior convertible notes are secured by the Company's revenues and assets with the same priority as the 2009 Note 3 to the Chairman and the senior convertible note to a major shareholder. These notes have an annual interest rate of 8% with a maturity date of June 30, 2014. The interest is due semi-annually in cash or the Company's common shares at the debt holders discretion with proper notice. As of September 30, 2010 the Company paid approximately \$10,000 in semi-annual interest payment. These notes have the convertible price of \$1.00 per share of common stock. The Company has recorded approximately \$22,500 as an interest expense as a result of the beneficial conversion feature.

Effective March 15, 2010, the Company issued a \$215,000 promissory note payable to its Chairman. The Company received the borrowings (the "Advances") in a series of \$50,000 on January 29, February 12 and March 15, 2010, \$34,000 on January 13, 2010, \$11,000 on January 14, 2010, and \$20,000 on February 26, 2010 totaling \$215,000. This note is secured by the Company's revenues and assets. In addition, the note has a 8% interest rate per annum and has a maturity date of March 12, 2011, which was extended to July 1, 2011.

In November 2009, the Company finalized and issued a \$600,000 2009 senior convertible note payable ("2009 Note 3") to its Chairman. The Company received the borrowings (the "Advances") in a series of \$45,000 on September 8, 2009, \$25,000 on September 11, 2009, \$125,000 on September 23, 2009, \$100,000 on October 14, 2009, \$50,000 on October 28, 2009, \$175,000 on November 12, 2009, \$50,000 on December 14, 2009, and \$30,000 on February 26, 2010 totaling \$600,000. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2009 and 2008 senior convertible notes described below with a 8% annual interest rate and has a maturity date of December 31, 2013. This note has the conversion price of \$0.60 per share of common stock. The Company has recorded approximately \$215,500 as an interest expense to date for the Advances received as a result of the beneficial conversion feature. As part of the terms of this note, the maturity dates of all other outstanding senior convertible notes owed to its Chairman are extended to December 31, 2013.

Effective May 12, 2009, the Company issued a 2009 senior convertible note payable ("2009 Note 2") to its Chairman to combine the borrowings (the "Advances") in a series of \$35,000 each from May 12, 2009 through August 12, 2009, \$50,000 and \$45,000 on August 14 and 27, 2009, respectively totaling \$375,000. As of June 30, 2009, the Company received \$175,000. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2009 and 2008 senior convertible notes described below and has a maturity date of December 31, 2013. This note has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

Effective February 26, 2009, the Company issued a 2009 senior convertible note payable ("2009 Note 1") to its Chairman to combine the borrowings (the "Advances") in a series of \$35,000 each from February 26, 2009 through April 30, 2009 totaling \$175,000. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2008 senior convertible notes described below and has a maturity date of December 31, 2013. This note has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

Effective September 15, 2008, the Company issued a 2008 senior convertible note payable ("Note 3") to its Chairman to combine the borrowings (the "Advances") in a series of \$50,000 each from September 15, 2008 through October 15, 2008 totaling \$150,000. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2007 senior convertible notes described below and has a maturity date of December 31, 2013. This note has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

Effective May 17, 2008, the Company issued a 2008 senior convertible note payable ("Note 2") to its Chairman to combine the borrowings (the "Advances") ranging from \$50,000 to \$135,000 each from May 17, 2008 through August 28, 2008 totaling

\$485,000. This Note 2 is secured by the Company's revenues and assets with the same priority as the 2007 senior convertible notes described below and has a maturity date of December 31, 2013. This Note 2 has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

Effective February 11, 2008, the Company issued a 2008 senior convertible note payable ("Note 1") to its Chairman to combine the borrowings (the "Advances") ranging from \$50,000 to \$75,000 each from February 11, 2008 through April 29, 2008 totaling \$370,000. This Note 1 is secured by the Company's revenues and assets with the same priority as the 2007 senior convertible notes described below and has a maturity date of December 31, 2013. This Note 1 has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

Effective October 30, 2007, the Company issued another 2007 senior convertible note payable to its Chairman to combine the borrowings (the "Advances") in a series of \$50,000 each from October 30, 2007 through January 30, 2008 totaling \$300,000. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2007 senior convertible notes described below and has a maturity date of December 31, 2013. This note has the conversion prices determined by the closing trading prices of the Company's common stock on the dates the Advances were received.

In June 2007, the Company issued two other 2007 senior convertible note payables to its Chairman and a major stockholder for \$375,000 each. These two senior convertible note payables are secured by the Company's revenues and assets. The Company may prepay the principal and interest upon meeting certain cash flow requirements and the approval of the board. As described above, on March 31, 2010, the \$375,000 senior convertible note to a major shareholder together with the unpaid accrued interest thereon was combined as part of the new senior convertible note of \$1,053,000 principal balance and new terms including a new maturity date of December 31, 2013.

**NOTE 4 – NOTES PAYABLE, continued**

In addition, the Company combined its other outstanding note payables to its Chairman totaling \$208,955 into a single note with the same annual interest rate and extended the maturity date to 2010. This senior convertible note is secured by the Company's revenues and assets with the same priority as the 2007 senior convertible notes. Further, the 2003 senior convertible note maturity date was extended until July 13, 2010. The maturity date is further extended to December 31, 2013.

In September 2003, the Company negotiated a successor agreement with its Chairman regarding the line of credit, which became a single convertible note for up to \$1,500,000 excluding accrued interest, at an interest rate of 6% and due July 1, 2004. The convertible note is secured by the assets and revenues of the Company, which has the same priority as other senior convertible note payables. The note plus accrued interest will be convertible at a conversion rate of \$0.38 per share. The conversion rate was determined as 15% above the average share price over the prior 20 trading days (\$0.33 per share). The note has an anti-dilution provision in the event that the Company sells stock to other investors at less than \$0.20 per share. During the year ended June 30, 2006, the maturity date of the note was extended until October 1, 2007. In January 2007, the Chairman agreed to extend the maturity date of the note until April 1, 2008. In June 2007, the maturity date of this note was extended to July 2010. The maturity date is further extended to December 31, 2013.

At March 31, 2011, the Company accrued interests of \$950,395, \$84,371, and \$2,628 on the convertible notes with the director, the convertible note with a related party, and the promissory note with the officer, respectively

**NOTE 5 – FAIR VALUE MEASUREMENTS**

As discussed in Note 2, "Summary of Significant Accounting Policies," the Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly referenced as SFAS No. 157, *Fair Value Measurements*), for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. FASB ASC 820 establishes and prioritizes three levels of inputs that may be used to measure fair value:

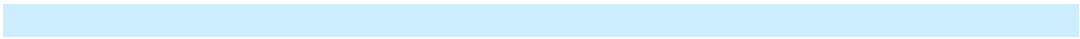
*Level 1* - Quoted prices in active markets for identical assets or liabilities.

*Level 2* - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2011:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial Assets</b>				
Cash equivalents (1)	\$ 674,322	\$ 674,322	-	-
Total financial assets	\$ 674,322	\$ 674,322	-	-
<b>Financial Liabilities</b>				
Convertible notes payable (2)	\$ 6,645,346	-	-	\$ 6,492,243
Total financial liabilities	\$ 6,645,346	-	-	\$ 6,492,243



**NOTE 5 – FAIR VALUE MEASUREMENTS, continued**

*(1) Cash Equivalents*

The Company's cash equivalents include short-term investments, which are money market funds. Since these are short-term highly liquid investments with original maturities of three months or less at the date of purchase, they present negligible risk of changes in value due to changes in interest rates. These short-term investments are recorded at fair value on the Company's balance sheet based on quoted market prices and observable market inputs.

*(2) Convertible Notes Payable*

As fully described in Note 4, the Company's convertible notes payable are long-term debts with fixed interest rates and the conversion rates at market at the time the funds were received. In addition, most of these notes are collateralized by the Company's assets and revenues. Further, the debt holders are major shareholders and an officer. The Company is in a start up phase. The Company estimates the fair value of the convertible notes for disclosure purposes by discounting the future cash flows using rates of debts that management believes are similar in terms and maturity. The Company's short-term convertible note payable is approximate market value.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

As fully described in Note 4, the Company has several senior convertible note payables with its Chairman, a major stockholder, and third parties and a promissory note with an officer during the periods ended March 31, 2011 and June 30, 2010.

**NOTE 7 – SUBSEQUENT EVENTS**

On April 1, 2011, the Company entered into a License Agreement (the "Agreement") with Avery Dennison Corporation ("Avery"). Under the Agreement, the Company grants Avery a worldwide exclusive right and license to use its proprietary NIMBUS® antimicrobial technology in antimicrobial adhesive for medical devices. In addition, the Company grants Avery a three-year exclusive single right of first option to negotiate with us for exclusive licenses of a Next Generation Antimicrobial Adhesives Technology and our Stay Fresh® Technology within the adhesives market both of which are the Company's proprietary technologies.

Subsequent to March 31, 2011, the Company received approximately \$154,000 from the sale of 550,000 shares of common stock. In addition, the Company obtained a commitment to receive approximately \$515,000 of new equity financing, contingent upon the Company's ability to raise approximately \$1,500,000 in total equity financing, of which approximately \$1,450,000 has been raised. The fees associated with this equity financing will be paid with up to approximately 500,000 restricted shares of the Company's common stock.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and related notes appearing elsewhere in this Form 10-Q and our Annual Report on Form 10-K for our fiscal year ended June 30, 2010. The terms "Quick-Med", "the Company," "we," "our" or "us" refer to Quick-Med Technologies, Inc., a Nevada corporation. This discussion contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements are based on our current expectations, assumptions, and estimates. The words or phrases "believe," "expect," "may," "anticipates," or similar expressions are intended to identify "forward-looking statements." In addition, any statements that refer to trends in our businesses, future financial results, and our liquidity and business plans are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties pertaining to our business, including without limitation: (a) because we have a limited operating history and our technologies are still evolving, we may not be able to successfully manage our business or achieve profitability; (b) our technology and product development processes, which include regulatory approvals, are lengthy and expensive and there is no assurance that we will have sufficient resources to complete development related to these processes; (c) our history of losses makes it difficult for you to evaluate our current and future business and prospects and future financial results; (d) we have negative cash flow from operations and an accumulated deficit that raises substantial doubt about our ability to continue as a going concern; (e) our future business is dependent upon third parties to market, manufacture, and distribute our technologies and/or products or jointly developed products; (f) there is no assurance that our technologies or products will be accepted in the marketplace; (g) we do not currently carry product liability insurance and, therefore, should we be subject to a product liability claim, our financial condition may be adversely affected; (h) our operations are currently funded by our revenues and our debt or equity financings, but there are no assurances that these revenues and financings will be sufficient to ensure our future financial performance and viability; (i) we have substantial debt obligations due to our Chairman of the Board and a major shareholder, who have funded our operations, debt obligations, including those that are secured by our assets and revenues and are senior obligations; and (j) there is no assurance that we will be able to attract and retain highly skilled scientific, technical and management personnel, who are critical to our success; and (k) other risk factors discussed in our annual report for the fiscal year ended June 30, 2010 and other periodic filings, which may be accessed at <http://www.sec.gov>. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

### Overview

Quick-Med is a life sciences company focused on developing proprietary, broad-based technologies in the consumer and healthcare markets. Our four core technologies are: (1) Novel Intrinsically Micro-Bonded Utility Substrate (NIMBUS®), a family of advanced polymers bio-engineered to have antimicrobial, hemostatic, and other properties that can be used in a wide range of applications, including wound care, catheters, tubing, films, and coatings; (2) *Stay Fresh*®, a unique chemical formulation for textiles with a durable antimicrobial agent effective against an array of bacteria even after numerous laundering cycles; (3) NimbuDerm™, a novel copolymer for application as a persistent hand sanitizer with long lasting protection against germs; and (4) MultiStat®, a family of advanced patented methods and compounds shown to be effective in skin therapy applications. Currently, NIMBUS technology has been commercialized in late June 2009 in an advanced wound care product line by our licensee in the U.S. and Canada institutional markets (i.e. hospitals and health care facilities). It has also been licensed in separate agreements for the over-the-counter, retail wound care market, for medical adhesives, and for traditional wound care products in India. The Company is targeting NIMBUS technology for additional advanced wound care products, catheters, incontinence products, and other medical devices. MultiStat has been commercialized in a cosmetic product line with the anti-aging products. *Stay Fresh* is currently under development with a broad range of potential applications including the consumer textile market. NimbuDerm is also a technology currently being developed.

Our strategy is to further develop our core technologies as well as develop future technologies. We will attempt to commercialize these technologies through strategic licensing partnership agreements, joint ventures, or co-development agreements. We do not intend to manufacture or distribute final products; instead, we will seek partnership arrangements and/or license agreements with third parties to develop products that use our technologies and who will perform the manufacturing, marketing, and distribution functions associated with our technologies.

Our business model has been to attempt to develop the following revenue segments:

- Royalty and license fees;
- Profit sharing revenues;
- Research and development fees paid to us in connection with joint development agreements; and
- Government research and development grants.

Our potential revenues will likely be derived from government agencies and the following types of companies in connection with our NIMBUS, *Stay Fresh*, NimbuDerm and MultiStat technologies:

- Healthcare and medical;
- Apparel and textile; and
- Personal care companies.

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### Recent Developments

Effective March 31, 2011, we entered into a new Manufacturing and Distribution Agreement with BASF Corporation, ("BASF"), for product development, manufacturing and distribution (the "BASF Agreement"). The BASF Agreement extended our manufacturing and distribution agreement with BASF until December 31, 2014. The terms of this agreement are essentially the same as the prior agreement other than the modifications of certain sharing percentages as defined therein.

On April 1, 2011, we entered into a License Agreement (the "Agreement") with Avery Dennison Corporation ("Avery"). Under the Agreement, we grant Avery a worldwide exclusive right and license to use its proprietary NIMBUS® antimicrobial technology in antimicrobial adhesive for medical devices. In addition, we grant Avery a three-year exclusive single right of first option to negotiate with us for exclusive licenses of a Next Generation Antimicrobial Adhesives Technology and our *Stay Fresh*® Technology within the adhesives market both of which are our proprietary technologies.

As consideration, Avery will pay us lockout fees over a three to four year period and royalties for products to which our technologies are incorporated. Avery will lose the exclusivity of license unless it pays the lockout fees and minimum royalty at agreed times and makes commercially reasonable efforts to generate sales of its products. The Agreement will remain effective until the expiration of the last to expire of our proprietary intellectual property.

### Uncertainties and Trends

Our revenues are dependent now and in the future upon, among other things, the following factors:

- Acceptance of our products or future products in the marketplace;
- Our partners' ability to develop, market and distribute our technologies under a strategic partnership agreement;
- Demand for products or future products that utilize our technologies;
- Our ability to secure license or profit sharing related agreements and secure government research and development grants;
- Our ability to market our technologies to health care, apparel, cosmetic, and personal care companies;
- Our ability to successfully conduct laboratory and clinical testing of our potential products;
- Our ability to obtain regulatory approval of our future products; and
- Other risk factors discussed in our annual report for the fiscal year ended June 30, 2010 and other periodic reports.

Uncertainties or trends that may affect our business also include the possibility (i) that known or unknown competitors may develop products with similar applications to our proposed products, which may prove to be superior in performance and/or price to our products and (ii) that proposed applications involving our products have collateral effects which render the application undesirable or unmarketable.

Revenues derived from Research and Development Services are usually, but not exclusively, associated with Joint Development Agreements ("JDA") under which we are typically paid to apply our technologies to a potential partner's existing or future products. If successful, the Joint Development Agreement may lead to a successor business arrangement, usually a license agreement. Over time, and if successful, that agreement would be expected to generate revenues from royalties. This is now the case with Avery Dennison Corporation, which has transitioned from the JDA to a license agreement with an expected future royalty revenue stream. Over time we have entered into multiple JDAs with the intention of generating future royalties and would expect the overall composition of its revenue to transition from Research and Development Services to royalties. There is no assurance that a JDA will lead to a license agreement or future royalties. Revenue from Research and Development Services is likely to be nonrecurring and may fluctuate.

### Government Regulation

Many of the end-user applications for our technology are regulated in the U.S. as medical devices by the Food and Drug Administration ("FDA") and/or as treated articles by the Environmental Protection Agency ("EPA").

The FDA's regulations govern, among other things: pre-clinical testing; product design and development; pre-market clearance or approval; advertising and promotion; labeling; manufacturing; product import/export; storage; record keeping; reporting of adverse events; corrective actions and removals; recalls; and distribution.

One of the exemptions to the requirement of pre-market clearance is 510(k) pre-market notification, which is submitted to the FDA to demonstrate that the new device is "substantially equivalent" to a previously cleared 510(k) device or a device that was in commercial distribution before May 29, 1976 (or to a pre-1976 Class II device for which the FDA has not yet called for the submission of pre-market approval ("PMA")). Such devices are deemed to be "predicate devices" for future applications. A PMA

must be submitted if the device cannot be cleared through the 510(k) process. The PMA process is much more demanding than the 510(k) pre-market notification process.

If a medical device is found NSE (not substantially equivalent) by the FDA and therefore a 510(k) pathway is not available, a second alternative pathway to the lengthy and costly PMA is available for low risk devices. This is called the De Novo application. The FDA Modernization Act of 1997 amended Section 513 (f)(2) of the Federal Food, Drug and Cosmetic Act (the “FFDC Act”) to provide this mechanism to reclassify statutorily classified class III products. This is considered a fairly unique pathway for clearance and typically is only allowed for new technologies of low risk. The FDA allows unlimited responses when on this pathway, different than the three allowed responses under a normal 510(k). A device placed into class I or II in this written order can then be commercially distributed, subject to other applicable provisions of the FFDC Act. A device classified into class I or II under this new provision becomes a predicate device for future pre-market notification submissions, which means that a manufacturer may show that a new device is substantially equivalent to this predicate. This route to clearance is referred to as De Novo because it establishes a new alternative for a new technology.

On February 26, 2009, we received clearance from the FDA for our De Novo application of our patented NIMBUS barrier gauze wound care dressings. This represents the first FDA clearance for NIMBUS – an innovative technology that was put through FDA’s De Novo process, a special clearance program for medical devices that are found to be “not substantially equivalent” to any predicate device.

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This section should be read in conjunction with our annual report on Form 10-K for fiscal year ended June 30, 2010 filed with the SEC for further discussions in the sections entitled, “Government Regulation,” “510(k) Clearance Pathway” and “De Novo: Alternative Pathway to PMA.”

EPA regulations govern the sale and distribution of pesticides in the United States. EPA requires registration of a new pesticide or a “new use” of a previously registered pesticide. EPA regulations also govern the particular types of claims that manufacturers and marketers may make on products or articles that are treated with registered pesticides. To obtain a registration, EPA requires specific studies and tests to insure that the pesticide, when used according to label directions, does not pose unreasonable risks to human health or to the environment. After review by EPA, a Notice of Pesticide Registration is issued and the pesticide can be used legally in the U.S., provided that the use and claims are consistent with the EPA approved product label.

On January 27, 2011 EPA granted registration for our patent pending *Stay Fresh* antimicrobial technology. *Stay Fresh* is the only antimicrobial technology containing hydrogen peroxide approved by EPA for antimicrobial preservation of textiles. Our EPA registration covers a range of textile applications including apparel, interior furnishings, automotive upholstery and carpeting.

### **Capital Expenditures and Requirements**

From 2000 to March 2011, we have spent approximately \$906,000 on the acquisition of patents and exclusive license agreements. We owe an additional \$160,000 to Dr. Richard Galardy which is due when certain milestones are met in connection with a September 2000 license agreement we have with Dr. Galardy and Dr. Damian Grobelny. This license agreement provided that we compensated approximately 80,000 common shares, 80,000 stock options and \$50,000 in cash each, to Dr. Galardy and Dr. Grobelny for the exclusive license of the Ilomastat technology, which they invented.

We do not expect any significant additions to property, plant and equipment.

### **Critical Accounting Policies and Estimates**

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The estimates and assumptions are evaluated on an on-going basis and are based on historical experience and on various other factors that management believes to be reasonable under the circumstances. Estimates and assumptions include, but are not limited to economic useful lives of fixed and intangible assets, income taxes, valuation of options and warrants granted, and contingencies. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. We believe that the estimates, assumptions and judgments involved in revenue recognition, receivables and allowances for doubtful accounts, accruals including stock-based compensation, deferred costs, research and development, and impairment of intangible assets have the greatest potential impact on our condensed financial statements, so we consider these to be our critical accounting policies. Management believes that there have been no significant changes during the three months ended March 31, 2011 to the items that we disclosed as our critical accounting policies and estimates in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended June 30, 2010.

### **Recent Accounting Pronouncements**

For a description of the new accounting standards that affect us, see Note 2 of notes to our condensed financial statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

### **Results of Operations**

#### ***Comparison of Nine Months Ended March 31, 2011 and 2010***

**Revenues.** During the nine months ended March 31, 2011 we had \$789,385 of revenues, compared to \$592,064 of revenues for the nine months ended March 31, 2010, representing a \$197,321 or 33% increase in our revenues. Our revenues during the nine months ended March 31, 2011 consisted of: (a) \$363,568, which represented our royalties in the form of revenue share from MultiStat product sales by BASF Corporation (“BASF”), in connection with a manufacturing and distribution agreement we have with BASF for product development, manufacturing and distribution (the “BASF Agreement”); (b) \$232,067 royalty and license fees consisting of \$216,156 in royalty fees from the sales of BIOGUARD® advanced wound care product by Derma

Sciences, Inc., our licensee, and \$15,911 in license fees representing the earned portion of the license fees from our licenses; and (c) \$193,750, which represented the revenue earned from the development projects. During the last quarter, our licensee began selling BIOGUARD wound dressings to the acute care segment of the U.S. health care market through an exclusive distribution agreement with Medline Industries, the largest privately-held U.S. distributor of health care products. In addition, we granted temporarily our licensee a small reduction in the royalty rates on certain cotton-based BIOGUARD products for a six month period ending June 30, 2011. While we noted that the year-to-date MultiStat product sales by BASF has improved, however, given the current state of the economy, the retail cosmetic industry in particular, we cannot anticipate the MultiStat product sales by BASF for subsequent quarters given current economic market uncertainties.

Our revenues during the nine months ended March 31, 2010 consisted of (a) \$310,706 which represented our royalties from the product sales by BASF; (b) \$118,858, royalty and license fees consisting of \$5,785 in license fees representing the earned portion of the license fees from our licenses and \$113,073 from the sales of BIOGUARD® advanced wound care product by Derma Sciences, Inc. This product was launched in late June 2009 and the royalty fees related to the sales of this product were \$188,073 from the period from June to March 31, 2010. However, \$75,000 was credited against the advance royalty fees we had previously received in accordance with the terms of the license agreement. There are no further credits against future royalty fees; and (c) \$162,500, which represented the revenue earned from the development projects.

We granted BASF the exclusive and non-exclusive licenses to develop and market our Ilomastat product for the field of over-the-counter anti-aging (chronological aging or photoaging) cosmetics. Under the terms of this agreement, we and BASF share the net revenues in each contract calendar year beginning January 1, 2008 until December 31, 2010 in accordance with certain sharing percentages as defined in the agreement. Both parties extended the BASF Agreement until December 31, 2014.

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**Operating Loss.** Operating loss for the nine months ended March 31, 2011 was \$1,287,020 as compared to \$1,667,905 in operating loss for the nine months ended March 31, 2010, representing a decrease of 23% or \$380,885 in operating loss. The decrease in operating loss was primarily attributable to an increase in revenues of \$197,321 coupled with a decrease in operating expenses of \$183,564 for the nine months ended March 31, 2011. The decrease in operating expenses was primarily due to the following: (a) a decrease in research and development expenses of \$196,026 or 21%; offset by (b) an increase of \$6,631 or 3% in licensing and patent expenses; and (d) an increase of \$8,157 or 57% in cost of revenues, while the general and administrative expenses remained at the same level, as described in more detail below.

**Research and Development Expense.** Research and development expense decreased by \$196,026 or 21% to \$725,008 for the nine months ended March 31, 2011, from \$921,034 for the nine months ended March 31, 2010. The decrease in research and development expense is primarily attributable to a reduction in the remaining subcontractor expenses related to the SBIR phase II program, and lower stock-based compensation expenses than in prior year comparable period.

**General and Administrative Expense.** General and administrative expense decreased slightly by \$499 or 0.05% to \$1,068,452 for the nine months ended March 31, 2011, from \$1,068,951 for the nine months ended March 31, 2010. This slight decrease in our general and administrative expenses is mainly attributed to the implementation of the investor relations programs and larger royalty fees incurred by us offset by lower stock-based compensation expenses than in prior year comparable period.

**Licensing and Patent Expense.** Licensing and patent expense increased by \$6,631 or 3% to \$209,142 for the nine months ended March 31, 2011 from \$202,511 for the nine months ended March 31, 2010. This increase was primarily due to higher consulting patent legal fees than those of prior comparable period.

**Other Income.** In October 2010, we were awarded a grant of approximately \$244,000 before the direct expenses related to the grant application, by the U.S. government under the Qualifying Therapeutic Discovery Project ("QTDP") program to advance the development of the NIMBUS technology for wound dressings and wound drains. There was no similar income received in the prior comparable period.

**Interest Expense.** Interest expense on notes payable for the nine months ended March 31, 2011 increased \$84,634 or 34% to \$337,117 compared to \$252,483 the nine months ended March 31, 2010. The increase was due to approximately \$1,100,000 or 23% increase in the outstanding principal loan balance due to our Chairman of the Board, a major shareholder, and third parties to approximately \$5,800,000, compared to approximately \$4,700,000 outstanding principal loan balance in the previous year.

For the nine months ended March 31, 2010, we had an approximately \$1,103,000 non-cash charge to interest expense as a result of a beneficial conversion feature of the long-term convertible note payables with the Chairman, a major shareholder and third parties. We had no similar charge for the nine months ended March 31, 2011.

**Net Loss.** Net loss for the nine months ended March 31, 2011 was \$1,427,119 or \$0.04 per share compared to \$3,023,222 or \$0.10 per share for the nine months ended March 31, 2010. This decrease is primarily attributable to increases in revenue, other income, a reduction in research and development expenses, a slight decrease in general and administrative expenses, offset by increases in interest expense, licensing and patent expenses, and cost of sales.

### ***Comparison of Three Months Ended March 31, 2011 and 2010***

**Revenues.** During the three months ended March 31, 2011 we had \$156,851 of revenues, compared to \$364,717 of revenues for the three months ended March 31, 2010, representing a 57% decrease in our revenues. Our revenues during the three months ended March 31, 2011 consisted of: (a) \$69,085, which represented our royalties in the form of revenue share from MultiStat product sales by BASF; (b) \$77,766 royalty and license fees consisting of \$70,875 in royalty fees from the sales of BIOGUARD advanced wound care product by Derma Sciences, Inc., our licensee, and \$6,891 in license fees representing the earned portion of the license fees from our licenses; and (c) \$10,000, which represented the revenue earned from the development projects. During the quarter ended March 31, 2011, our licensee began selling BIOGUARD wound dressings to the acute care segment of the U.S. health care market through an exclusive distribution agreement with Medline Industries, the largest privately-held U.S. distributor of health care products. Overall BIOGUARD sales during the quarter exceeded sales in each of the previous quarters and increased by 62% over the comparable prior period quarter. In addition, we granted temporarily our licensee a small reduction in the royalty rates on certain cotton based products including BIOGUARD products from a six month period ending June 30, 2011.

Our revenues during the three months ended March 31, 2010 consisted of (a) \$186,398 which represented our royalties from the product sales by BASF; (b) \$63,319, royalty and license fees consisting of \$61,106 from the sales of BIOGUARD advanced wound care product by Derma Sciences, Inc., and \$2,213 in license fees representing the earned portion of the license fees from our licenses; and (c) \$115,000, which represented the revenue earned from the development projects.

**Operating Loss.** Operating loss for the three months ended March 31, 2011 was \$501,482 as compared to \$405,221 in operating

loss for the three months ended March 31, 2010, representing an increase of 24% or \$96,261 in operating loss. The increase in operating loss was primarily attributable to a decrease in revenues of \$207,866 offset by a decrease in expenses of \$111,605 for the three months ended March 31, 2010. The decrease in expenses was primarily due to the following: (a) a decrease in research and development expenses of \$30,577 or 11%; (b) a decrease of \$67,202 or 17% in general and administrative expenses; (c) a decrease of \$10,246 or 14% in licensing and patent expenses and (d) a decrease of \$2,889 or 37% in cost of sales, as described in more detail below.

Research and Development Expense. Research and development expense decreased by \$30,577 or 11% to \$247,639 for the three months ended March 31, 2011, from \$278,216 for the three months ended March 31, 2010. The decrease in research and development expense is primarily attributable to the absence of the remaining subcontractor expenses related to the SBIR phase II program, which was completed in May 2010, and lower stock-based compensation expenses than in prior year comparable period.

General and Administrative Expense. General and administrative expense decreased by \$67,202 or 17% to \$328,019 for the three months ended March 31, 2011, from \$395,221 for the three months ended March 31, 2010. This decrease in our general and administrative expenses is mainly attributed to lower stock-based compensation expenses offset by the expenses related the implementation of the investor relations programs beginning in May 2010.



Licensing and Patent Expense. Licensing and patent expense decreased by \$10,246 or 14% to \$60,729 for the three months ended March 31, 2011 from \$70,975 for the three months ended March 31, 2010. This increase was primarily due to lower patent maintenance fees than those of prior comparable period.

Interest Expense. Interest expense on notes payable for the three months ended March 31, 2011 increased \$20,634 or 23% to \$110,865 compared to \$90,231 the three months ended March 31, 2010. The increase was due to approximately \$1,100,000 or 23% increase in the outstanding principal loan balance due to our Chairman of the Board, a major shareholder, and third parties to approximately \$5,800,000, compared to approximately \$4,700,000 outstanding principal loan balance in the previous year.

For the three months ended March 31, 2010, we had an approximately \$904,000 non-cash charge to interest expense as a result of a beneficial conversion feature of the long-term convertible note payables with the Chairman, a major shareholder and third parties. We had no similar charge for the three months ended March 31, 2011.

Net Loss. Net loss for the three months ended March 31, 2011 was \$611,898 or \$0.02 per share compared to \$1,399,560 or \$0.04 per share for the three months ended March 31, 2010. This decrease is primarily attributable to a decrease in revenue offset by decreases in general and administrative expenses, research and development expenses, licensing and patent expenses and cost of sales.

### **Liquidity and Capital Resources**

Our auditors have issued a going concern opinion on our audited financial statements for the fiscal years ended June 30, 2010 and 2009 as we have experienced recurring losses and negative cash flows from operations in these periods. We expect to continue to incur losses in 2011. In addition, we have a net capital deficiency. These matters raise substantial doubt about our ability to continue as a going concern.

Total cash on hand at March 31, 2011 was \$665,761 as compared with \$628,026 at June 30, 2010. Subsequent to March 31, 2011, we collected \$135,615 of the outstanding receivable balance as of May 3, 2011.

We raised approximately \$154,000 subsequent to March 31, 2011, in a private equity financing through the sales of approximately 550,000 shares of our common stock to a number of investors as of May 16, 2011 and have a commitment of approximately \$515,000 additional equity investment upon achieving a certain investment threshold. We may issue a consultant up to approximately 300,000 shares of our restricted common stock as fees associated with this equity financing.

In August 2010, we entered into a Development and Option Agreement (the "Agreement") with Biosara. The expiration date of the Agreement was extended to June 30, 2011 or until superseded by the earlier of a license agreement or another product development agreement. The parties agree to perform in accordance with the terms as set forth in the statement of work including the initial and subsequent monthly development fees paid or to be paid to the Company. We anticipate that the development fees are adequate to cover our expenses. We received the two installment payments and performed the work. We are unable to determine if we will continue to receive the development fees in the future to complete the project at this time. We will continue the work as long as the development fees are received.

In July 2010, we entered into an exclusive Patent and Technology license agreement (the "Agreement") with Viridis BioPharma Pvt. Ltd., ("Viridis") an India corporation. Under the Agreement, Viridis will manufacture, market and sell these wound treatment products in the institutional market in the Republic of India. The Company will receive royalty payments on the product sales at an agreed royalty rate in addition to certain payment received in March 2010. As of February 7, 2011, we received additional payment as the first commercial sale has not occurred in six months from July 26, 2010, the effective date of the Agreement. We are unable to determine when the first commercial sale will occur and how much, if any, of the royalty fee we will receive in the future at this time. We expect nominal direct expenses in relation to this license agreement.

In June 2009, our licensee, Derma Sciences, Inc. launched the commercial sale of BIOGUARD® an advance wound care product employing our NIMBUS technology. From the launch date to December 30, 2010, our royalty fees related to this product were approximately \$384,402. In accordance with the terms of the license agreement, the first \$75,000 royalty fees from Derma Sciences were offset against the advance payments we received in 2007, the subsequent royalty fees will be at 20% of the net sales as defined in the license agreement. During the quarter ended March 31, 2011, our licensee began selling BIOGUARD wound dressings to the acute care segment of the health care market through an exclusive distribution agreement with Medline Industries, the largest privately-held distributor of health care products. In addition, we granted temporarily our licensee a small reduction in the royalty rates on certain cotton-based BIOGUARD products for a six month period ending June 30, 2011. We are unable to determine how much, if any, of the royalty fee we will receive in the future at this time. We expect minimal direct expenses in relation to this license agreement.

In May 2010, we entered into a service agreement with a division of a major consumer products company for a certain fee over four months period or when the milestones are completed. We anticipated the direct expenses related to this project of approximately \$10,000 that would be covered by the fee arrangement. We have invoiced and collected payments for the first two milestones under the project to date. We have invoiced the final invoice as the project was completed.

In April 2010, we and KCI USA, Inc. ("KCI") entered into a Development Agreement (the "Agreement") for a certain fee over seven months period. We anticipated the direct expenses related to this project of approximately \$15,000 that would be covered by the fee arrangement. We have collected all payments under the project.

In September 2006, we received the SBIR Phase II grant, which included the option of SBIR Phase I, totaling approximately \$840,000 over the next two years and we expect the cash outflows related to this grant of approximately \$390,000 to subcontractors and other direct expenses. To date, we received approximately \$616,000 and incurred approximately \$282,000 in expenses to subcontractors and other direct expenses.

While we expect to receive royalties in the next twelve to twenty four months from the license agreement described above subject to certain contractual terms, we need cash in order to maintain and grow our businesses. See the section below for further discussion of our cash requirements and related strategies to meet these needs.

## Equity Financing and our Cash Requirements

Effective December 30, 2010, we signed a placement agent agreement with an investment banker on a non exclusive basis to raise up to \$1,500,000 in order to meet our current operating cash needs and to execute our business plan. We cannot assure you that we will raise a sufficient amount of capital, if any, through this investment banker or through any other means.

Based on our cash position at March 31, 2011, we cannot continue to satisfy our current cash requirements for a period of twelve (12) months through our existing capital. We anticipate total estimated, operating and research and development expenditures, and patent related legal fees of approximately \$190,000 per month or an aggregate of approximately \$2,280,000 over the next twelve (12) months, in the following areas:

- Research and development expenditures of approximately \$83,000 per month or an aggregate \$996,000 over the next twelve (12) months, which will consist of the following estimated monthly expenditures: (a) \$61,000 in payroll for scientists; (b) \$5,000 for outside research and development expenditures; and (c) \$17,000 for chemical supplies and laboratory operating expenses, including rent expense;
- Patent related legal fees of approximately \$23,334 per month or an aggregate \$280,000 annually; and
- Operating expenses of approximately \$83,667 per month or an aggregate \$1,004,000 over the next twelve (12) months, including business developments, personnel costs, investors relations, director and officer insurance, general liability insurance, investors relations, rent, consulting fees, utilities, legal and accounting fees, and travel.

Our current cash balance of \$665,761 as of March 31, 2011, accounts receivable of approximately \$260,000, of which approximately \$135,600 has been collected after March 31, 2011, approximately \$154,000 cash from the sale of common stock and a commitment of approximately \$515,000 (\$515,000 cash already received) additional equity investment upon achieving a certain level investment threshold, subsequent to March 31, 2011, will satisfy our cash requirements for approximately no more than seven (7) months assuming no further receipt of revenues and additional debt or equity financing. If we are unable to satisfy the remainder of our obligations by equity and/or debt financings, we will be unable to satisfy our cash requirements beyond approximately no more than seven (7) months assuming no further receipts of revenues and additional debt or equity financing.

We are raising additional cash by means of equity and or debt financing. Additionally, we are implementing a cash conservation strategy by extinguishing obligations through share-based payments and reducing our use of consulting services. However, our ability to raise cash through equity or debt financing with third parties will be difficult in the current credit environment. There are no assurances that any planned equity offering and/or debt financing will be successful or sufficient to meet our cash requirements or that our cash conservation strategy will be successful. Even if we were able to obtain debt or equity financing, the terms of such financing may be very unfavorable to us. Further, any sale of newly issued debt or equity securities could result in additional dilution to our current stockholders.

As of March 31, 2011, we have ten senior convertible notes payable outstanding to our Chairman totaling approximately \$5,200,000 including accrued interest with interest rates ranging from 6% to 8% per annum and maturity dates of December 2013. These notes are convertible at conversion prices ranging from \$0.18 to \$0.74 per share and are secured by our revenues and assets. We also have a note payable with our Chairman of \$230,287 including accrued interest with a maturity date of July 1, 2011 and an annual interest rate of 8%. We also have a \$1,053,000 senior convertible note payable to a major stockholder. The senior convertible note has an 8% interest rate per annum with a conversion price of \$0.60 per share, a maturity date of December 31, 2013, and is secured by our revenues and assets. Further, we have two senior convertible notes totaling \$250,000 with third parties. These notes have an 8% interest rate per annum with a conversion price of \$1.00 per share, a maturity date of June 30, 2014. In addition, we have a promissory note payable totaling \$111,783 including accrued interest with an interest rate of 8% per annum and a maturity date in December 2013.

If we are unable to successfully repay our debt, we may have to liquidate our business and undertake any or all the steps outlined below.

- Significantly reduce, eliminate or curtail our business, operating and research and development activities so as to reduce operating costs;
- Sell, assign or otherwise dispose of our assets, if any, to raise cash or to settle claims by creditors, including our Chairman of the Board;
- Pay our liabilities in order of priority, if we have available cash to pay such liabilities;
- If any cash remains after we satisfy amounts due to our creditors, distribute any remaining cash to our shareholders in an amount equal to the net market value of our net assets;
- File a Certificate of Dissolution with the State of Nevada to dissolve our corporation and close our business;

- Make the appropriate filings with the Securities and Exchange Commission so that we will no longer be required to file periodic and other required reports with the Securities and Exchange Commission, if, in fact, we are a reporting company at that time; and
- Make the appropriate filings with FINRA to affect a delisting of our stock.

Based upon our cash requirements for our Plan of Operations and our current dividend policy of investing any available cash to our operations, however, we do not plan to distribute any cash to our stockholders.

At March 31, 2011, we had a negative working capital of \$89,321 that primarily consists of: (a) cash of \$665,761; (b) accounts receivable of \$260,355; (c) accounts payable of \$563,321; (d) accrued expenses of \$70,865; (e) unearned revenue of \$132,722; (d) note payable to director of \$234,529 including accrued interest; and a current portion of long term note payable of \$14,000. At March 31, 2011, we had a stockholders' deficit of \$6,603,222, a portion of which is due to non-cash share based compensation expense and non-cash interest expense from the notes payable conversions and the beneficial conversion feature of certain convertible notes.

Cash used in operating activities was \$722,622 for the nine months ended March 31, 2011. Net cash used in investing activities was \$58,478. Net cash provided by financing activities was \$818,835.

During the nine months ended March 31, 2010, we received \$1,985,450, of which \$1,015,000 was from the senior convertible notes with our Chairman, \$678,000 from a senior convertible note with a major shareholder, \$250,000 from the senior convertible notes with the third parties, and the proceeds of \$42,450 in cash from the exercise of stock options.

### Contractual Obligations

The following table summarizes our long-term contractual obligations as of March 31, 2011:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Long-term debt obligations (a)	\$ 6,743,129	\$ -	\$ 6,493,129	\$ 250,000	\$ -
Operating lease obligations (b)	\$ 45,150	\$ 23,650	\$ 21,500	\$ -	\$ -

(a) The principal and accrued interest on the notes payable owed to the Chairman's Senior Convertible Notes, to third parties' convertible note payable, to a major shareholder's senior note payable, and a note payable to an officer, as fully discussed in note 4 of the accompanying condensed footnotes to the financial statements.

(b) We have an operating lease for our laboratory in Gainesville, Florida with an expiration date in 2013.

### **Off-balance Sheet Arrangements**

We do not have any off-balance sheet arrangement that have, or are reasonably likely to have, a current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **ITEM 3. Quantitative and Qualitative Disclosure About Market Risk**

Not applicable.

### **ITEM 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on our management's evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), our Chief Executive Officer and our Chief Financial Officer have concluded that as of March 31, 2011, the end of the period covered by this Quarterly Report on Form 10-Q, such disclosure controls and procedures are effective at a reasonable level.

#### *Changes in Internal Controls over Financial Reporting*

As of the end of our quarter ended March 31, 2011, there was no change in the our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

Item 1A is not required to be disclosed by smaller reporting companies such as the Company.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On May 13, 2011, we sold 860,000 shares of common stock to eleven purchasers for a price of \$0.28 per share or in aggregate of \$240,800 in cash. We paid no cash fees in connection with this offering, however, we may issue up to approximately 86,000 shares of common stock to a consultant who provided assistance in connection with this transaction. The issuance of the securities describe above were exempt from the registration requirements of the Securities Act under Rule 4(2) and Regulation D and the rules thereunder, including Rule 506 insofar as: (1) the purchasers were each accredited investors within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by us in accordance with Rule 502(d); (3) there were no other non-accredited investors involved in the transaction within the meaning of Rule 506(b); and (4) the offer and sale of the securities was not effected through any general solicitation or general advertising within the meaning of Rule 502(c). We placed restrictive legends on the certificates representing these securities issued to the purchasers stating that the securities were not registered under the Securities Act and are subject to restrictions on their transferability and resale.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information.**

None

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
2.1	Merger Agreement dated March 19, 2001 between Above Average Investments Ltd. and Quick-Med Technologies, Inc. (1)
2.2	Amendment to Merger Agreement (1)
3.1	Articles of Incorporation (1)
3.2	Bylaws (1)
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Quick-Med Technologies, Inc.

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(Registrant)

Date May 16, 2011

By: /s/ J. Ladd Greeno

J. Ladd Greeno

Chief Executive Officer (Principal Executive Officer)

Date May 16, 2011

By: /s/ Nam H. Nguyen

Nam H. Nguyen

Chief Financial Officer





## 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
THE SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a) AS  
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Ladd Greeno certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quick-Med Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the 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
  - (d) 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(s) 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 fulfilling the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2011

Greeno

/s/ J. Ladd

J. Ladd Greeno  
Chief Executive Officer (

Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
THE SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a) AS  
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nam Nguyen certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quick-Med Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the 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;
  - (d) 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(s) 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 fulfilling the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2011  
Nam Nguyen

/s/ Nam

Nam Nguyen  
Chief Financial Officer



32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is not to be deemed filed pursuant to the Securities Exchange Act of 1934, as amended, and does not constitute a part of the Quarterly Report of Quick-Med Technologies, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report").

In connection with the Report, I, J. Ladd Greeno, Chief Executive Officer and principal executive officer of the Company, hereby certify, pursuant Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the date and for the periods indicated.

Dated: May 16, 2011

Greeno\_\_\_\_\_

/s/ J. Ladd

J. Ladd Greeno  
Chief Executive

Officer (Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is not to be deemed filed pursuant to the Securities Exchange Act of 1934, as amended, and does not constitute a part of the Quarterly Report of Quick-Med Technologies, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report").

In connection with the Report, I, Nam H. Nguyen, Chief Financial Officer of the Company, hereby certify, pursuant Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the date and for the periods indicated.

Dated: May 16, 2011

H. Nguyen

Nguyen

/s/ Nam

Nam H.

Chief



Financial Officer