BIOPHAN TECHNOLOGIES INC
Form 10QSB
January 15, 2004

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

FORM 10-QSB

[x] Quarterly Report under Section 13 or 15(d)of the Securities Exchange Act of 1934
For the quarterly period ended: November 30, 2003

[ ] Transition Report under Section 13 or 15(d) of the Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-26057

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

| Nevada | 82-0507874 |
|---|---|
| (State or other jurisdiction of incorporation or organization | (I.R.S. Employer Identification No.) |

| 150 Lucius Gordon Drive, Suite 215<br>West Henrietta, New York | 14586 |
|---|---|
| (Address of principal executive offices) | (Zip code) |

(585) 214-2441
Issuer's telephone number

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.

[ X ] Yes [ ] No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class | Outstanding as of January 12, 2004 |
|---|---|
| Common Stock, $.005 par value | 57,004,071 |

Transitional small Business Disclosure Format (Check One): Yes[ ] No[x]



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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
Biophan Technologies, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Biophan Technologies, Inc. and Subsidiaries as of November 30, 2003, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended November 30, 2003 and 2002 and the condensed consolidated statements of cash flows for the nine-month periods ended November 30, 2003 and 2002. These financial statements are the responsibility of the

Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of February 28, 2003, and the related consolidated statements of operations, stockholders' deficiency, and cash flows for the year then ended (not presented herein); and in our report dated April 10, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 28, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

January 8, 2004



BIOPHAN TECHNOLOGIES, INC.
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS

| | November 30, 2003 (Unaudited) | February 28, 2003 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash | $ 68,832 | $ 48,935 |
| Investments in marketable securities | - | 302,000 |
| Advances receivable | - | 10,127 |
| Due from related party | 74,889 | 24,368 |
| Prepaid expenses | 61,559 | 90,923 |
| Total Current Assets | 205,280 | 476,353 |
| Fixed Assets, at cost, net | 67,418 | 63,232 |
| Other Assets: | | |

| | | |
|---|---|---|
| Intellectual property rights | 70,000 | 70,000 |
| Security deposit | 2,933 | 2,933 |
| Deferred equity placement costs | - | 70,538 |
| Deferred tax asset, net of valuation allowance of $2,444,000 and $2,120,000 respectively | - | - |
| | 72,933 | 143,471 |
| | $ 345,631 | $ 683,056 |

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 658,836 | $ 343,216 |
| Loan payable to stockholder | - | 143,570 |
| Payable to related party, less discount | 203,402 | 300,000 |
| Due to related party | 4,854 | 9,401 |
| Total Current Liabilities | 867,092 | 796,187 |
| Long-term payable to related party, less discount | 333,334 | 83,333 |
| Stockholders' Deficiency: | | |
| Common stock, $.005 par value Authorized, 80,000,000 shares Issued and outstanding, 46,004,071 shares and 37,634,693 shares, respectively | 230,020 | 188,173 |
| Additional paid-in capital | 8,971,650 | 7,588,520 |
| Deficit accumulated during the development stage | (10,056,465) | (7,973,157) |
| | (854,795) | (196,464) |
| | $ 345,631 | $ 683,056 |

See Notes to Condensed Consolidated Financial Statements.



BIOPHAN TECHNOLOGIES, INC.
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended November, 30, | | Nine Months Ended November 30, | | Period from Augu 1, 1968 (date inception) to |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | November 30, 20 |
| Revenues: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Development payments | $75,000 | _ | $75,000 | - | $75,000 |
| Operating expenses: | | | | | |
| Salaries and related | 119,371 | 146,462 | 376,874 | 493,589 | 1,546,668 |
| Research and development | 242,783 | 195,842 | 682,671 | 837,123 | 3,118,063 |
| Professional fees | 109,233 | 104,784 | 364,909 | 374,804 | 2,236,625 |
| Write-down of intellectual property rights | - | - | - | - | 530,000 |
| General and administrative | 198,727 | 111,321 | 423,173 | 398,930 | 1,507,427 |
| | 670,114 | 558,409 | 1,847,627 | 2,104,446 | 8,938,783 |
| Operating loss | (595,114) | (558,409) | (1,772,627) | (2,104,446) | (8,863,783) |
| Other income(expense): | | | | | |
| Interest income | 113 | 177 | 1,377 | 16,878 | 46,140 |
| Interest expense | (142,886) | (162,862) | (387,551) | (334,422) | (1,388,947) |
| Other income | 10,169 | 47,345 | 75,493 | 137,069 | 304,568 |
| Other expense | - | - | | (28,805) | (65,086) |
| | (132,604) | (115,340) | (310,681) | (209,280) | (1,103,325) |
| Loss from continuing operations | (727,718) | (673,749) | (2,083,308) | (2,313,726) | (9,967,108) |
| Loss from discontinued operations | - | - | - | - | (89,357) |
| Net loss | $(727,718) | $(673,749) | $(2,083,308) | $(2,313,726) | $(10,056,465) |
| Loss per common share Basic and Diluted | $ (0.02) | $ (0.02) | $ (0.05) | $ (0.08) | |
| Weighted average shares outstanding | 43,946,562 | 31,902,380 | 40,359,446 | 30,359,831 | |

See Notes to Condensed Consolidated Financial Statements.



BIOPHAN TECHNOLOGIES, INC.
AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended November 30, | | Period from August 1, 1968 (date of incepti to |
|---|---|---|---|
| | 2003 | 2002 | November 30, 200 |
| Cash flows used for operating activities: | | | |

| | | | |
|---|---|---|---|
| Net loss | $(2,083,308) | $(2,313,726) | $(10,056,465) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | | |
| Depreciation | 17,439 | 19,191 | 57,969 |
| Realized and unrealized losses on marketable securities | - | 28,805 | 66,948 |
| Accrued interest on note payable converted to common stock | 11,998 | | 11,998 |
| Amortization of interest on convertible notes payable | 337,352 | 300,000 | 720,685 |
| Write-down of intellectual property rights | - | - | 530,000 |
| Amortization of discount on payable to related party | - | - | 75,000 |
| Issuance of common stock for services | - | - | 101,108 |
| Issuance of common stock for interest | - | - | 468,823 |
| Grant of stock options for services | 230,000 | 138,000 | 1,417,800 |
| Expenses paid by stockholder | - | - | 2,640 |
| Changes in operating assets and liabilities: | | | |
| (Increase)decrease in advances receivable | 10,127 | - | - |
| Increase in due from related parties | (50,521) | (16,779) | (74,889) |
| (Increase) decrease in prepaid expenses | 29,364 | (38,649) | (61,559) |
| Increase in security deposits | - | - | (2,933) |
| Increase in accounts payable and accrued expenses | 315,620 | 197,740 | 645,505 |
| (Decrease) in due to related parties | (4,547) | (11,559) | (38,642) |
| | (1,186,476) | (1,696,977) | (6,136,012) |
| Cash flows provided by investing activities: | | | |
| Purchases of fixed assets | (21,625) | (7,951) | (125,387) |
| Sales of marketable securities | 302,000 | 540,000 | 1,219,270 |
| Purchases of marketable securities | - | - | (1,286,218) |
| | 280,375 | 532,049 | (192,335) |
| Cash flows provided by financing activities: | | | |
| Proceeds of bridge loans | - | - | 986,500 |
| Loan from stockholder | - | 143,570 | 143,570 |
| Line of credit borrowing from related party | 200,950 | 300,000 | 500,950 |
| Line of credit payments | (55,000) | | (55,000) |
| Net proceeds from sales of capital stock | 281,663 | 757,212 | 4,393,312 |
| Proceeds from exercise of options | 427,847 | - | 427,847 |
| Deferred equity placement costs | 70,538 | (20,000) | - |
| | 925,998 | 1,180,782 | 6,397,179 |
| Net increase in cash | 19,897 | 15,854 | 68,832 |
| Cash, beginning | 48,935 | 12,199 | - |
| Cash, ending | $ 68,832 | $ 28,053 | $ 68,832 |
| Supplemental schedule of noncash investing and financing activities: | | | |
| Intellectual property acquired through issuance of capital stock and assumption of related party payable | - | - | $175,000 |

| | | | |
|---|---|---|---|
| Acquisition of intellectual property | $ - | $ - | $425,000 |
| Issuance of common stock upon conversion of bridge loans | $143,570 | $ - | $1,130,070 |
| Issuance of common stock upon partial conversion of line of credit loans | $183,950 | $ - | $183,950 |

See Notes to Condensed Consolidated Financial Statements.



BIOPHAN TECHNOLOGIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2003

INTERIM FINANCIAL STATEMENTS:

The condensed consolidated financial statements as of November 30, 2003 and for the three and nine months ended November 30, 2003 and 2002 are unaudited. However, in the opinion of management of the Company, these financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position and results of operations for such interim periods. The results of operations for the interim periods presented are not necessarily indicative of the results to be obtained for a full year.

BASIS OF CONSOLIDATION:

The condensed consolidated financial statements include the accounts of Biophan Technologies, Inc. ("Biophan")and its wholly owned subsidiaries, LTR Antisense Technology, Inc. ("Antisense") and MRIC Drug Delivery Systems, LLC ("MRIC") (collectively referred to as the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

ORGANIZATIONAL HISTORY:

The Company was incorporated under the laws of the State of Idaho on August 1, 1968. On January 12, 2000, the Company changed its domicile to Nevada by merging into a Nevada corporation, and on July 19, 2001, changed its name to Biophan Technologies, Inc. The Company's stock currently trades over-the-counter under the symbol BIPH. Our corporate headquarters are located at 150 Lucius Gordon Drive, Suite 215, West Henrietta, New York 14586; Tel. (585) 214-2441; website: www.biophan.com.

On December 1, 2000, the Company acquired LTR Antisense Technology, Inc., a New York corporation ("LTR"), from Biomed Solutions, LLC (formerly Biophan, LLC), a New York limited liability company ("Biomed"), in a share for share exchange. As a result of the exchange, LTR became a wholly owned subsidiary of the Company. The exchange was consummated pursuant to and in accordance with an Exchange Agreement, originally dated December 1, 2000 and subsequently amended, by and among the Company, LTR and Biomed. LTR owns multiple patents for proprietary HIV antisense gene therapy technology.

In connection with the exchange, the Company (i) issued an aggregate of 10,759,101 shares of common stock to Biomed in exchange for all the issued shares of LTR and (ii) issued an aggregate of 10,759,101 shares of common stock to a group of investors for $175,000. Also on December 1, 2000, the Company acquired intellectual property rights, including a pending patent to the MRI-compatible pacemaker technology from Biomed (the "Assignment"), for future consideration of $500,000 ("MRI technology purchase liability payable"). The Assignment was consummated pursuant to, and in accordance with, an Assignment and Security Agreement, originally dated December 1, 2000 and subsequently amended, by and between the Company and Biomed.

PRINCIPAL BUSINESS ACTIVITIES:



The Company is in the development stage and is expected to remain so for at least the next twelve months.

The Company is developing technologies that make implantable biomedical devices safe and compatible for use in an MRI (Magnetic Resonance Imaging) machine. Many implanted biomedical devices are prohibited for use in an MRI machine, including pacemakers, cardioverter-defibrillators, neurostimulators, bladder control devices, insulin pumps with wire connected sensors, pain control devices, intraluminal imaging coils, interventional catheters and guide wires, endoscopes, and others. The Company plans to provide intellectual property licenses and critical components to manufacturers of these biomedical devices.

ACCOUNTING FOR STOCK OPTIONS:

The Company has elected to apply Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock options issued to employees (intrinsic value) and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. Had the Company elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed by SFAS No. 123, the Company's net loss and loss per common share would have been as follows:

| | Three Months Ended November | | Nine Months Ended November | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net loss - as reported | $ (727,718) | $ (673,749) | $(2,083,308) | $(2,313,726) |
| Add - stock based employee compensation expense included in reported net loss, net of related tax effects | 30,000 | 47,000 | 90,000 | 140,000 |
| Deduct - Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 65,000 | 115,000 | 179,000 | 345,000 |
| Net loss - pro forma | $ (762,718) | $ (741,749) | $(2,172,308) | $(2,518,726) |

| | | | | |
|---|---|---|---|---|
| Basic and diluted loss per share - as reported | $ (.02) | $ (.02) | $ (.05) | $ (.08) |
| Basic and diluted loss per share - pro forma | $ (.02) | $ (.02) | $ (.05) | $ (.08) |

PREPAID EXPENSES:

Prepaid expenses at November 30, 2003 consisted of the following:



| | |
|---|---|
| Prepaid insurance | $ 43,434 |
| Prepaid supplies | 18,125 |
| | $ 61,559 |

LOAN AGREEMENTS:

In June 2002, the Company executed a line-of-credit agreement (the "Line") with Biomed that provided for borrowings up to $250,000. Interest accrues at 8% per annum. Upon execution of the Line, Biomed received warrants to purchase 325,000 shares of restricted common stock at $1.00 per share. The warrants were valued at approximately $234,000 which was recorded as a discount against the Convertible Promissory Note (the "Note") supporting the Line. At issuance, the Note was convertible into shares of the Company's common stock, at a price below the market value of such stock. The intrinsic value of the beneficial conversion feature of the Note was recorded as an additional discount, such that the full $250,000 issued was discounted, with a corresponding increase to additional paid-in capital. On August 19, 2002, the Line was increased by $100,000 and the expiration date thereof was extended to August 19, 2003. The payment date of amounts borrowed under the original Line was extended to December 1, 2002. The entire line now expires on June 1, 2004. In consideration for the increase in the Line, Biomed received 30,000 additional warrants to purchase shares of restricted common stock at a price dependent on the selling price of the Company's stock, as defined. The exercise price of the warrants issued to Biomed in exchange for the increase in the line of credit to $350,000 and the extension of the payment date to December 1, 2002 is the lowest of (i) the closing bid price on June 4, 2002; (ii) the closing bid price on the date of exercise; or (iii) the lowest per share purchase price paid by any third party between June 4, 2002 and the exercise date. The fair value of the warrants - in accordance with guidance provided by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation - was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.25; no dividend yield; volatility factor of the expected market price of the company's common stock of 0.0%, and an expected life of 2.8 years. The value attributed to the warrants was insignificant. As a result, these warrants have been allocated no value.

On June 30, 2003, we issued 1,268,621 shares of common stock for the conversion of $183,950 of the $350,000 Line of Credit obligation. Since that time, the Company has drawn additional amounts under the Line, which amounts were also fully discounted as a result of the beneficial conversion feature, and recorded as additional paid-in capital. At November 30, 2003, $262,000 was outstanding under the Line. The stated liability for financial reporting purposes is $262,000 less an unamortized discount $58,598, or $203,402.

Under the Transfer Agreement dated December 1, 2000, the Company incurred a liability ("MRI technology purchase liability payable") of $500,000 (including interest of $75,000) to Biomed in connection with the acquisition of the MRI intellectual property rights described above. Biomed maintains a security interest in the underlying patents until the liability is satisfied. The intellectual property rights will revert to Biomed if the Company does not satisfy the liability by June 1, 2004. The stated liability bears interest at an annual rate of 8%.

In December 2002, in consideration for extending the maturity date to June 1, 2004 and for prior extensions, the Company and Biomed agreed to make the $500,000 MRI technology purchase liability payable to Biomed convertible at Biomed's election into shares of the Company's common stock at a price



dependent on the selling price of the Company's stock, as defined, but below market. Consequently, the intrinsic value of the beneficial conversion feature of the liability was recorded as a discount, such that the full $500,000 was discounted, with a corresponding increase to additional paid-in capital. At November 30, 2003, the balance of the MRI technology purchase liability payable, net of a discount of $166,666, is $333,334.

At November 30, 2003, the principal amounts of the Company's obligations approximated their estimated fair values based upon current borrowing rates for similar issues.

CHANGES IN EQUITY AND SUBSEQUENT EVENT:

During November 2002, the Company entered into a Stock Purchase Agreement with an institutional investor whereby the Company agreed to sell up to $3,000,000 of the Company's common stock. The agreement required the Company to file with the Securities and Exchange Commission ("SEC") a Registration Statement covering the shares issuable under this agreement. The registration became effective on July 11, 2003. Through November 30, 2003, the Company sold and issued 3,325,757 shares of common stock under the agreement for gross proceeds of $491,190.

Also, during the period from August 13 through October 21, 2003, options for 3,000,000 shares were granted to three consultants, exercisable at prices equal to 80% of the closing price of the stock on the day prior to exercise. These options were completely exercised for aggregate proceeds of $427,847.

From December 3, 2003 to January 12, 2004, 11,000,000 shares of common stock were issued to SBI Brightline, LLC pursuant to the Stock Purchase Agreement between the Company and SBI. Gross proceeds of $2,900,000 were received, or are in transit, thereby completing the terms of that financing agreement.

Item 2. PLAN OF OPERATION

The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-QSB. This Quarterly Report on Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual events or results may differ materially from those projected in the forward-looking statements as a result of a number of factors including those identified herein and in the Company's Annual report on Form 10-KSB and other periodic reports and

filings with the Securities and Exchange Commission.

We are currently in the development stage of operations and expect to be in that mode for at least the next twelve months. Our primary mission is to develop and commercially exploit technologies for enabling cardiac pacemakers and other life sustaining medical devices to be safe and compatible with MRI and other equipment that generates powerful magnetic and radio frequency signals. . We believe that we have successfully demonstrated an effective solution for making pacemakers safe for use with MRI [and providing a meaningful margin of safety]. Our solution addresses both the problems of device heating and induced voltages in pacemakers, the two [primary] problems associated with the use of MRI for patients with pacemakers. Today approximately 3 million pacemaker recipients are denied access to MRI imaging when needed, due to safety concerns and FDA contraindications. If manufacturers of pacemakers incorporated our solution into their products, we believe they would be safe for use with MRI. We are in ongoing discussions with the major pacemaker manufacturers, and one or more of these companies is currently evaluating our technologies and patents. We are also negotiating with a major research university to undertake a study to demonstrate further the dangers posed to pacemaker patients by MRI imaging and the effectiveness of our solution. We believe that manufacturers, once provided with adequate additional compelling evidence of both the danger and the efficacy of our solution, will wish to avoid potential liabilities from death and/or injuries that may occur as a result of devices offered for sale after knowledge of our solutions was available, and failed to be taken advantage of, and will wish to incorporate our solution into their products.

On October 1, 2003, we entered into a stock purchase agreement with SBI Brightline Consulting, LLC that obligated SBI to purchase, upon our election, up to 11,000,000 shares of our common stock for an aggregate purchase price of $2.9 million. The agreement required that the shares be registered with the SEC and a registration statement for that purpose became effective on November 17, 2003. All 11,000,000 shares have now been purchased by SBI in



six tranches for gross proceeds of $2,900,000.

In addition to the stock purchase agreement with SBI, we have been a party to a restated stock purchase agreement with Spectrum Advisors LTD. Pursuant to the Spectrum agreement, we have the option to require Spectrum to purchase shares of our common stock at our sole discretion and from time to time over a period of 24 months ending July 11, 2005. The purchase price for shares purchased under the Spectrum agreement is 80% of the average daily volume weighted average price of our common stock during the trading days relating to a particular draw. Spectrum is currently committed to purchase shares for consideration of up to $3 million under the Spectrum agreement. We have registered for resale by Spectrum 8,960,000 shares of common stock that we may sell to Spectrum pursuant to the Spectrum agreement. As of the current date, we have sold Spectrum 3,325,757 shares for aggregate consideration of $491,190. Effective with the registration of the new SBI Brightline $5.5 million financing, Biophan will terminate the unutilized remainder of the earlier Spectrum financing, and these shares will be allocated for purchase by SBI Brightline under the new financing.

We estimate that the equity financing from the sale of our common stock pursuant to the SBI stock purchase agreement will be more than sufficient to satisfy our projected cash requirements over the next 12 months. Our estimate of these cash requirements is as follows:

| | |
|---|---|
| Research and product development | $ 973,000 |
| Operating expenses, including administrative salaries and benefits, office expenses, rent expense, legal and accounting, publicity, investor relations | 1,137,000 |
| Partially repay related party loans plus interest | 390,000 |
| Pay down past-due accounts payable | 200,000 |
| Total Cash Requirements | $2,700,000 |

In December 2003, we announced three major strategic initiatives for 2004: (1) Acquisition of Intellectual Assets, (2) Market Expansion, and (3) Strategic Partnerships.

(1) With four United States patents under license and more than 50 patents pending, we are aggressively pursuing internal research and development projects, as well as sourcing leading-edge providers of related technologies. Intellectual property, such as technology solutions and patents, may be developed internally, through joint ventures, or purchased. To ensure the continuing value of our intellectual assets, we will aggressively defend our licenses, both domestically and abroad.

(2) We currently enjoy a leadership position in developing technologies designed to make implanted medical devices, such as heart pacemakers, safe for use with MRI and other diagnostic imaging tools. We have also developed technologies that allow for the use of interventional MRI, without the heating problems that can cause tissue damage or imaging problems that obscure the outcome of the procedures. Based on



discussions underway with several biomedical device manufacturers, both in the U.S. and overseas, we plan to expand the use of the technologies we have developed to make a wider range of devices compatible with MRI. These technologies reduce radio frequency interference, heating, and induced voltages. In 2004, we will explore opportunities for these technologies in the prosthetic and surgical tool markets, where the lack of MRI compatibility negatively impacts investigational and diagnostic procedures. Discussions with these device manufacturers indicate a need for, and interest in, solutions to additional problems where we can develop solutions based on our technology. Part of our strategic initiative for 2004 will include expanding our technology offerings to the companies with whom we are already in discussions or collaborating.

Our Photonic MRI Microcoil (PMM) is one example of our expanded technology. Recent studies indicate up to 85% of heart attacks and strokes may be caused by vulnerable plaque which may result in thrombosis, and is not easily detected by other methods. Our technologies are designed to pinpoint specific sites where therapies can address the problem. By inserting the PMM directly into a blood vessel, MRI can provide a detailed look at vulnerable plaque without injury-causing heating or image degradation. Another example of our expanding on the use of existing, licensed technology is NanoView. The concept of our NanoView technology is to utilize nanomagnetic particles, a specific type of nanotechnology, as contrast agents to preferentially bind to tissues of diagnostic interest with the goal of improving detail and contrast in MRI diagnostic image processes. We expect NanoView to

improve performance in terms of signal intensity and the use of multiple markers, which broadens the applications of MRI imaging.

(3) Leveraging strategic partnerships is vital to our mission. By exploiting our established relationships, such as the recently announced joint development agreement with Boston Scientific, a major medical device manufacturer, we not only gain access to a platform to validate our technology but also develop a relationship with our potential sales channels. We have entered into Non- Disclosure Agreements with a number of major manufacturers of implanted biomedical and related devices. We are discussing with these companies potential strategic partnership arrangements that may include joint development projects, original equipment manufacturing arrangements and licensing agreements.

We estimate that our ongoing research and development plan will require approximately $973,000 of our funds over the next 12 months, dedicated to the following activities:

| | |
|---|---|
| MRI Shielding for Active Medical Devices | $ 563,000 |
| MRI Shielding for Passive Medical Devices | 410,000 |
| Total | $ 973,000 |

These amounts may increase as customer contracts identify specific tasks and testing that may be required.

The MRI Shielding project entails the development of technology that may be applied to active medical devices and passive medical devices to allow patients to undergo MRI diagnostics. Active medical devices include such items as pacemakers and drug pumps, and passive medical devices include such items as biopsy needles, stents and guidewires.



In November 2004, we recorded $75,000 as a development payment from one of our biomedical device customers for prototype development of a prospective product adaptation.Additional revenues are expected from this customer for additional work, which may lead to a license for one of our technologies.

Our current strategic plan does not indicate a need for material capital expenditures in the conduct of research and development activities, nor does the plan contemplate any significant change in the number of employees. We currently employ eleven full-time individuals.

Our plans do not include funding for FDA approvals, as our strategy is to supply solutions to the major biomedical device manufacturers, who will incorporate our technology into their existing and future product lines. It will be the responsibility of these manufacturers to apply for and receive FDA approval of their products. Since our technologies are made of known biocompatible, non-toxic materials, and since we do not change the method by which the devices conduct diagnostic and/or therapeutic functionality, we anticipate reasonable timeframes for our customers to obtain FDA approvals of devices that add our capability for safety and/or image enhancements.

New Accounting Standards

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the

accompanying financial statements.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses



during the period reported. The following accounting policies involve a "critical accounting estimate" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period, or changes in the accounting estimates we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

Acquired Intangibles

Acquired intangibles are reviewed for impairment whenever events such as a significant industry downturn, product discontinuance, product disposition, technology obsolescence or other changes in circumstances indicate that the carrying amount may not be recoverable. When such events occur, we compare the carrying amount of these assets to their undiscounted expected future cash flows. If this comparison indicates that there is an impairment, the amount of the impairment is calculated using discounted expected future cash flows. Our estimates of undiscounted and discounted future cash flows are dependent upon many factors, including general economic trends, industry trends, and technological developments. It is reasonably likely that future cash flows associated with these assets may exceed or fall short of our current estimates, in which case a different amount for our intangible assets and the related impairment charge would have resulted. If our actual cash flows exceed our estimates of future cash flows, there would be no change to our previously recognized impairment charge although, it may indicate that the amount of the impairment was greater than needed. If our actual cash flows are less than our estimates of future cash flows, we may need to recognize an additional impairment in future periods, which would be limited to the current carrying value of our acquired intangible assets.

Tax Valuation Allowance

A tax valuation allowance is established, as needed, to reduce net deferred tax assets to the amount for which recovery is probable. We have established a full valuation allowance against our net deferred tax assets because our lack of revenues and our recurring losses as a development stage company cause our long term financial forecast to have enough uncertainty that we do not meet the standard of "more likely than not" that is required for measuring the likelihood of realization of net deferred tax assets. In the event it becomes more likely than not that some or all of the deferred tax assets will be realized, our valuation allowance will be adjusted. Depending on the amount and timing of taxable income we ultimately generate in the future, as well as other factors, we could recognize no benefit from our deferred tax assets, in accordance with our current estimate, or we could recognize their full value.

Item 3. Controls and Procedures

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-QSB, our principal executive officer and principal financial officer, with the participation and assistance of our management, concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, were effective in design and operation. There have been no changes in our system



of internal control over financial reporting in connection with the evaluation by our principal executive officer and principal financial officer during our fiscal quarter ended November 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings and there are no material legal proceedings pending with respect to our property. We are not aware of any legal proceedings contemplated by any governmental authorities involving either us or our property. None of our directors, officers or affiliates is an adverse party in any legal proceedings involving us or our subsidiaries, or has an interest in any proceeding which is adverse to us or our subsidiaries.

Item 2. Changes in Securities and Use of Proceeds

Between July 12, 2003 and November 30, 2003 we issued an aggregate of 3,325,757 shares of our common stock to Spectrum Advisors, Ltd. in connection with the restated stock purchase agreement dated as of November 22, 2002 between us and Spectrum. We received aggregate proceeds of $491,190 from our sale of these shares to Spectrum. In connection with such sales, we are obligated to issue to Carolina Financial Services, LLC warrants to purchase 166,288 shares of our common stock at an average exercise price of $.16. These transactions were exempt from registration under Section 4(2) of the Securities Act because they did not involve any public offering.

Item 3. Defaults Upon Senior Securities

This Item is not applicable.

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

This Item is not applicable

Item 5. Other Information

This Item is not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit No. | Exhibit Description | Location |
|---|---|---|
| 2.1 | Articles of Merger | Incorporated by reference to Exhibit 3.2 to Biophan's Form 10-KSB for the year ended February 29, 2000 |



| | | |
|---|---|---|
| 2.2 | Articles of Dissolution | Incorporated by reference to Exhibit 3.3 to the 2000 10-KSB |
| 2.3 | Exchange Agreement, dated as of December 1, 2000, by and among Biophan, Biomed Solutions, LLC (formerly Biophan, LLC), and LTR Antisense Technology, Inc. | Incorporated by reference to Exhibit 2.3 to Biophan's Registration Statement on Form SB-2 (File No. 333-102526) (the "Prior Registration") |
| 3.1 | Articles of Incorporation (Nevada) | Incorporated by reference to Exhibit 3.1 to the 2000 10-KSB |
| 3.2 | Bylaws (Nevada) | Incorporated by reference to Exhibit 3.2 to Biophan's Form 10-SB filed on May 13, 1999. |
| 3.3 | Amendment to the Articles of Incorporation | Incorporated by reference to Exhibit 3.1(i) to Biophan's Form 8-K, filed December 15, 2000. |
| 3.4 | Amendment to Exchange Agreement | Incorporated by reference to Exhibit 2 to Biophan's Form 10-KSB for the year ended February 28, 2001 and filed as an exhibit to Form SB-2a on May 1, 2003. |
| 3.5 | Certificate of Amendment to Articles of Incorporation | Incorporated by reference to Exhibit 3.1(i) to Biophan's Form 8-K on August 27, 2001. |
| 4.1 | Stock Purchase Warrant between Biophan and Biomed Solutions, LLC (formerly Biophan, LLC) dated June 4, 2002 | Incorporated by reference to Exhibit 4.1 to Biophan's Form 10-QSB for the period ended May 31, 2002. |
| 4.2 | Restated Stock Purchase Warrant Biophan and Bonanza Capital | Incorporated by reference to Exhibit 4.2 to |

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|---|---|---|
| | Masterfund LTD | Biophan's Form 10-QSB for the period ended May 31, 2002. |
| 4.3 | Restated Stock Purchase Warrant between Biophan and Biomed Solutions, LLC, dated January 8, 2003 | Incorporated by reference to Exhibit 4.3 to Biophan's Form 10-QSB for the period ended November 30, 2002. |
| 4.4 | Stock Purchase Warrant between Biophan and Biomed Solutions, LLC | Incorporated by reference to Exhibit 4.4 to Biophan's |



| | | |
|---|---|---|
| | dated November 11, 2002 | Form 10-QSB for the period ended November 30, 2002. |
| 4.5 | Form of Stock Purchase Warrant issued to principals of Carolina Financial Services, for a total of 121,572 shares | Incorporated by reference to Exhibit 4.5 to Biophan's Form 10-QSB for the period ended November 30, 2002. |
| 4.6 | Form of Stock Purchase Warrant to be issued to Carolina Financial services in connection with the Stock Purchase Agreement with Spectrum Advisors, Ltd | Incorporated by reference to Exhibit 4.6 to Biophan's Form 10-QSB for the period ended November 30, 2002. |
| 4.7 | Form of Stock Purchase Warrant issued to investors in private placement of securities, for a total of 2,770,550 shares | Incorporated by reference to Exhibit 4.7 to Biophan's Form 10-QSB for the period ended November 30, 2002. |
| 10.1 | Stock Purchase Agreement dated October 1, 2003 between Biophan and SBI Brightline Consulting, LLC. | Incorporated by reference to Exhibit 10.50 to Biophan's Form SB-2 on October 9, 2003. |
| 10.2 | Development Agreement between Biophan and Alfred University dated July 17, 2003 | Incorporated by reference to Exhibit 10.51 to Biophan's Form SB-2 on October 9, 2003. |
| 31.1 | Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith |
| 32.1 | Certification by Chief Executive Officer and 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 |

(b) Reports on Form 8-K

The Company filed Form 8-K dated October 1, 2003 reporting under Item 5, Other Events and Regulation FD Disclosure, that the Company had entered into a Stock Purchase Agreement with SBI Brightline Consulting, LLC ("SBI") obligating SBI to purchase, upon the Company's election, up to 11,000,000 shares of the Company's common stock for an aggregate purchase price of $2.9 million.



SIGNATURES

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

BIOPHAN TECHNOLOGIES,INC.
(Registrant)

Date: January 14, 2004

By: /s/ Michael L. Weiner
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Name: Michael L. Weiner,
Title: Chief Executive Officer

By: /s/ Robert J. Wood
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Name: Robert J. Wood
Title: Chief Financial Officer