BIOPHAN TECHNOLOGIES INC
Form 10QSB
October 15, 2002

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

FORM 10-QSB

[x] Quarterly Report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the period ended: August 31, 2002

[ ] Transition Report Pursuant to section 13 or 15(d) of the
Securities and Exchange Act of 1934

For the transition period from ____ to ____

Commission File No. 0-26057

BIOPHAN TECHNOLOGIES, INC.
(Exact name of registrant 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 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 October 8, 2002
Common Stock, $.005 par value	31,621,213

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 consolidated balance sheet of Biophan Technologies, Inc. and Subsidiaries as of August 31, 2002, and the related consolidated statements of operations for the six-month and three-month periods ended August 31, 2002 and 2001 and the consolidated statements of cash flows for the six-month periods ended August 31, 2002 and 2001. 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 accompanying consolidated financial statements for them to be in conformity with generally accepted accounting principles.

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, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 5, 2002, except for Note 10 therein, as to which the date was June 7, 2002, 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, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/GOLDSTEIN GOLUB KESSLER LLP
New York, New York

October 14, 2002

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

CONSOLIDATED BALANCE SHEETS

	August 31, 2002 (Unaudited)	February 28, 2002
ASSETS		
Current Assets:		
Cash and equivalents	$ 123,131	$ 12,199
Marketable securities, at market value	-	568,805
Prepaid expenses	170,012	91,819
Total Current Assets	293,143	672,823

Fixed Assets, at cost, net	76,053	80,882
Other Assets:		
Intellectual property rights	110,000	110,000
Security deposit	2,933	2,933
Deferred private equity placement costs	20,000	-
Deferred tax asset, net of valuation allowance of $1,946,000 and $1,305,000 respectively	-	-
	132,933	112,933
	$ 502,129	$ 866,638
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities:		
Accounts payable and accrued expenses	$ 333,014	$ 129,040
Loan payable to shareholder	143,570	
Payables to related party	650,000	500,000
Due to related parties	8,928	16,349
Total Current Liabilities	1,135,512	645,389
Stockholders' Equity (Deficiency):		
Common stock, $.005 par value Authorized, 60,000,000 shares Issued and outstanding, 31,062,713 shares	155,314	147,747
Additional paid-in capital	5,386,185	4,608,407
Deficit accumulated during the development stage	(6,174,882)	(4,534,905)
	(633,383)	221,249
	$ 502,129	$ 866,638

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended August 31,		Six Months Ended August 31,		Period 1, 19 inc
	2002	2001	2002	2001	Augu
Operating expenses:					
Salaries and related	$ 175,914	$ 41,034	$ 347,127	$ 114,907	$

Research and development	189,466	161,656	641,281	286,755	1
Professional fees	129,527	158,979	270,020	172,637	1
Write-down of intellectual property rights	-	-	-	-	
General and administrative	122,300	66,700	287,609	89,092	
Operating loss	(617,207)	(428,369)	(1,546,037)	(663,391)	(5
Other income(expense):					
Interest income	93	4,633	16,701	5,670	
Interest expense	(161,260)	(212,905)	(171,560)	(231,618)	
Other income	76,226	-	89,724	-	
Other expense		(10,473)	(28,805)	(10,473)	
	(84,941)	(218,745)	(93,940)	(236,421)	
Loss from continuing operations	(702,148)	(647,114)	(1,639,977)	(899,812)	(6
Loss from discontinued operations	-	-	-	-	
Net loss	$ (702,148)	$ (647,114)	$(1,639,977)	$ (899,812)	$(6
Loss per common share	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.03)	
Weighted average shares outstanding	29,652,082	25,589,646	29,600,761	25,712,589	

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended August 31,		Period 1, 19 inc
	2002	2001	Augu
Cash flows - operating activities:			
Net loss	$ (1,639,977)	$ (899,812)	$
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation	12,780	500	
Amortization of interest on convertible note payable	150,000	-	
Losses on marketable securities	28,805	10,473	
Write-down of intellectual property rights	-	-	
Amortization of discount on payable to related party	-	31,000	
Issuance of common stock for services	-	-	
Issuance of common stock for interest	-	192,985	
Grant of stock options for services	94,000		

Expenses paid by stockholder		-	-
Changes in operating assets and liabilities:			
Increase in prepaid expenses		(78,193)	(111,557)
Increase in security deposits			
Increase in deferred equity placement costs		(20,000)	
Increase(decrease) in accounts payable and accrued expenses		203,974	(21,918)
Decrease in due to related parties		(7,421)	(124,909)
		(1,256,032)	(923,238)
Cash flows - investing activities:			
Purchases of fixed assets		(7,951)	(13,593)
Sales of marketable securities		540,000	-
Purchases of marketable securities		-	(849,097)
		532,049	(862,690)
Cash flows - financing activities:			
Proceeds of bridge loans			986,500
Loan from shareholder		143,570	-
Line of credit borrowing from related party		300,000	-
Net proceeds from sales of capital stock		391,345	1,337,059
		834,915	2,323,559
Net increase in cash and cash equivalents		110,932	537,631
Cash and cash equivalents, beginning		12,199	172,092
Cash and cash equivalents, ending	$	123,131	$ 709,723 $
Supplemental schedule of noncash investing and financing activities:			
Intellectual property acquired through issuance of capital stock and assumption of related party payable	$	-	$ - $
Acquisition of intellectual property	$	-	$ - $
Issuance of common stock upon conversion of bridge loans	$	-	$ - $

See Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2002

INTERIM FINANCIAL STATEMENTS:

The consolidated financial statements as of August 31, 2002 and for the three and six months ended August 31, 2002 and 2001 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 consolidated financial statements include the accounts of Biophan Technologies, Inc. ("Biophan") (formerly GreatBio Technologies, Inc.) 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.OB. 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, dated December 1, 2000 and amended as of June 8, 2001, 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. The Assignment was consummated pursuant to, and in accordance with, an Assignment and Security Agreement, dated December 1, 2000 and amended as of June 8, 2001 by and between the Company and Biomed.

PRINCIPAL BUSINESS ACTIVITIES

The Company is developing technologies that make biomedical devices safe for use in an MRI (Magnetic Resonance Imaging) machine. Many 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, interluminal imaging coils, interventional catheters and guide wires, endoscopes, and others. The Company plans to manufacture and market a temporary pacemaker and to supply sub-system components and intellectual property licenses to manufacturers of other biomedical devices.

The Company is developing technologies that impact several large, well

established segments of the biomedical industry. The Company is providing solutions to MRI safety issues that prevent the use of numerous biomedical devices in MRI machines.

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

LOAN AGREEMENTS:

In June 2001, the Company entered into bridge loan agreements providing gross proceeds of $986,500. Loans of $400,000 from one lender provided for a maturity date of December 15, 2001 and interest payable by issuance of 100,000 shares of stock on the due date. As additional consideration, the noteholder received 100,000 shares of stock and warrants to purchase an additional 100,000 shares at $1.00 per share. The noteholder had the right to convert the principal amounts into stock at $.75 per share at any time prior to maturity. The Company also received proceeds from a series of bridge loans aggregating $586,500 upon the same general terms as above except that interest was payable by issuance of 73,324 shares of stock at the maturity date of October 29, 2001 (extended to November 29, 2001). All bridge lenders exercised their conversion options on November 29, 2001, at which time the Company issued 1,315,334 shares of common stock to convert the loans to equity.

In June 2002, the Company signed a Loan Agreement with a shareholder providing for borrowings of up to $400,000 with interest payable at 8% per annum. Principal and accrued interest become due and payable on December 31, 2003. At August 31, 2002, $143,570 had been borrowed under this Agreement.

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. In consideration for the increase in the Line, Biomed received additional warrants to purchase shares of restricted common stock at a price dependent on the Company's traded market price, as defined. These warrants have no value.

The Company has drawn an additional $50,000 under the Line, which was also fully discounted as a result of the beneficial conversion feature, which was recorded as additional paid-in capital. At August 31, 2002, the Company has borrowed $300,000 in aggregate under the Line.

As of August 31, 2002, three months' interest expense of $150,000 was recorded by amortizing a portion of the $300,000 discount recorded by the Company under the Line and related Note.

PRIVATE EQUITY PLACEMENTS:

In accordance with a Private Placement Memorandum dated July 2, 2001, the Company offered to sell 3,000,000 shares of common stock, par value $.005 per share, at $1.00 per share. Gross proceeds of $2,399,750 (net proceeds of $2,188,332) were received.

Also, from July 2 through November 30, 2001, the Company issued 468,823 shares of common stock to bridge lenders as additional consideration. The shares were valued at $1.00 per share, treated as interest expense for accounting purposes, and resulted in adding $2,344 to capital stock and $466,479 to additional paid-in capital.

During June 2002, the Company entered into a Stock Purchase Agreement with an institutional investor whereby the Company agreed to sell up to $2,400,000 of the Company's common stock. The minimum monthly sale of common stock under the Agreement shall be $250,000. The agreement requires the Company to file with the Securities and Exchange Commission ("SEC") a Registration Statement covering the shares issuable under this agreement. The Company can begin selling shares to the purchaser 20 days after the SEC declares the above-mentioned Registration Statement effective. The Company has not as yet filed for registration.

In July and August, 2002, the Company entered into finder's agreements for the sale of restricted common stock to foreign investors pursuant to the exemption from registration provided in Regulation S of the 1933 Securities Act. During the quarter ended August 31, 2002, the Company issued a total of 1,513,274 shares of stock for aggregate net proceeds of $391,345 under these agreements.

Effective August 22, 2002, the Company entered into a finder's agreement with a domestic consulting firm providing for the sale of restricted shares of common stock pursuant to Regulation D under the Securities Act. The finder receives a cash fee of 10% plus stock equal to 3% valued at a purchase price of $.35 per share. In September 2002, net cash proceeds of $103,500 were received under this 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.

Overview

The Company continues in the development stage of its operations and is expected to be in that mode for the foreseeable future. The Company's primary mission is to develop and commercially exploit potentially significant technologies for enabling cardiac pacemakers and other life sustaining medical devices to be safe and compatible with magnetic resonance imaging (MRI) and other equipment that generates powerful magnetic and radio frequency signals.

Results of Operations

During the year-ago quarter ended August 31, 2001, the Company pursued the development of its proprietary technology, realized no revenues and incurred research and development expenses of $161,656 and other operating expenses of $266,713 plus interest expense of $212,905. The net loss for the quarter was $647,114, including $192,985 of non-cash charges for interest expense incurred in connection with the payment of interest on bridge loans by issuance of shares of common stock. The Company has remained in the development stage through the quarter ended August 31, 2002 and has realized no operating revenues.

During the quarter ended August 31, 2002, the Company pursued the development of its proprietary technology, incurring research and development expenses of $189,466 and other operating expenses of $427,741. The net loss for the current quarter was $702,148, which includes non-cash charges of $194,000. Of that amount, $44,000 is related to expensing options and $150,000 is related to imputed interest expense on the Company's line of credit agreement.

During the six months ended August 31, 2002, the Company incurred a net loss of $1,639,977 as compared with net loss of $899,812 for the six months ended August 31, 2001. Research and development expenses were $641,281 and other operating expenses were $904,756 for the six months ended August 31, 2002 as compared with $286,755 and $376,636 respectively, for the six months ended August 31, 2001. The net loss for the six months ended August 31, 2002 included $244,000 of non-cash interest and options charges and the net loss for the six months ended August 31, 2001 included $223,985 of non-cash interest charges.

Research and Product Development Activities

The Company is developing technology to allow patients with biomedical devices to safely undergo MRI diagnostics.

It is estimated that over 300,000 of the world's 5 million pacemaker recipients are turned away from MRI scans every year, even though many need them to detect and treat life threatening illnesses, such as tumors. The Company is developing a temporary pacemaker which will allow someone with an implanted pacemaker to safely undergo an MRI scan without the current risks that resulted in the 1997 FDA contraindication for pacemakers and other devices. While some organizations will take the risk of giving a pacemaker or defibrillator patient an MRI scan, most do not for fear of the associated liabilities, and the fact that the risks associated with such patients are very difficult to reliably control.

The Company is developing a temporary pacemaker where we anticipate significant consumables business as a temporary fiber-optic lead is needed for each MRI procedure provided for a patient with an implanted pacemaker. The Company plans to service other segments by supplying critical core components and sub-systems and technology licenses to industry partners by market segment.

The Biophan solution for temporary pacing uses a fiber-optic lead to stimulate the heart. It is used to ensure safe pacemaker operation during the MRI procedure, without having to remove the patient's existing pacemaker or lead. If a problem occurs during the procedure with the implanted pacemaker, the temporary pacemaker takes over, ensuring the patient's heart is paced until the problem is resolved. Even if the metal wire lead in the implanted device heats up and scars the heart, one of the more worrisome problems encountered, the temporary pacemaker can ensure safe pacing until the pacemaker and/or lead is replaced, in the occasional instance where a

problem ensues.

The Company has announced that it has contracted for animal testing of its prototype fiber-optic temporary pacemaker during the fourth quarter. Greatbatch Enterprises, a firm headed up by Wilson Greatbatch, the inventor of the world's first successfully implanted pacemaker, and his team of engineers developed the prototype and are conducting the animal tests in conjunction with a leading research university. After the animal tests are completed, the Company plans to file an FDA application for human clinical trials. Since the temporary pacemaker functions identically to existing pacemakers, and will not pace the heart in any new way, but rather utilize an MRI-safe material for delivering the pacing voltage to the heart, the FDA approval process is expected to be a reasonably timely one that can potentially allow us to offer the temporary pacemaker in the next twelve to twenty-four months.

The fiber-optic based catheter that provides electrical power and pacing and sensing the heart has been tested in an MRI machine and does not heat up as do existing catheters that contain metal wires. The Company is exploring the use of this technology with third parties, under license, for use in deep brain stimulation applications, such as treating Parkinson's and epilepsy. The fiber-optic cable provides much greater bandwidth for measuring brain activity, and for allowing installation and subsequent evaluation of the neurostimulating lead under MRI guidance. The Company has also received OEM licensing interest from several companies wishing to use the fiber-optic lead to power miniature MRI receiving coils, known as "interluminal coils," placed in body cavities, close to tissue, to improve MRI image resolution, reduce scan time, and enable quality images to be obtained with lower strength and lower cost MRI machines. Today the wire leads used to power these coils have the potential to heat up and injure the patient, and to pick up extraneous electrical noise which degrades signal to noise ratio associated image quality. The Company is anticipating one or more R&D contracts to help finance the development of this technology platform.

The problem of making a defibrillator lead MRI-safe has also been addressed. Patents are pending and a demonstration model has been built. Implanted defibrillators deliver an 800 volt pulse directly to the heart when tachycardia is detected. This is far too much power to be delivered via a fiber-optic lead in an implanted or temporary device. The Company has developed an MRI-safe solution for defibrillation by using a discontinuous wire lead that enables the high voltage cardioversion-defibrillation pulse to bridge the gaps in the lead while preventing lower voltage MRI induced currents from bridging the gap and heating the lead. This innovation requires no moving parts or logic to operate. It is the perfect companion solution to a fiber-optic sensing and pacing lead, for temporary or implanted pacemakers.

The Company is conducting other research and has licensed in, on an exclusive basis, several other technologies that hold promise for MRI safety in different devices, including pacemakers. By doing so, the Company is

positioning itself to be the sole provider of MRI-safe solutions for the biomedical device industry. These shielding and filtering initiatives are showing promise in lab models. They include the use of carbon composite and nanomagnetic particle technologies which have the potential to shield medical devices from MRI interference. This specialized area of nanotechnology uses nanoparticles that allow precision altering of the magnetic field in a non-conductive material that exhibits unique properties due to the nano-scale size and formulation of the coating. Because the coating can be generated by technologies already in use in production scale, the technology can be adapted by wire lead manufacturers.

The requirements of an effective MRI shielding solution are quite different from the requirements of traditional electromagnetic interference (EMI) shields. Traditional shielding technologies do not work in an MRI machine, due to the very powerful magnetic fields utilized in MRI machines. Fiber-optics are impervious to this energy. The nonmagnetic nanoparticles used in our proprietary process appear to have properties which can be used to shield metal wires inside the shielding. As a result of promising early indicators, the Company has significantly stepped up its R&D efforts with these nanomaterials, carbon composites, and RF filtering.

Certain industries, such as the pacemaker industry, have a significant investment in metal wire leads that have been proven to perform reliably for many years in the challenging environment inside a human heart, beating some 37 million times a year. It is clear that, if a method of shielding achieved by adding a thin-film coating to the wire-based pacemaker lead were available, the industry would rapidly adopt this, and the competitive advantage of offering "an MRI-Safe Pacemaker" and/or defibrillator would be worth a great deal to the major pacemaker manufacturers. We have conducted preliminary modeling of the solutions with promising results.

In pursuit of this alternative solution, the Company has entered into exclusive licenses to the patented technologies described above, and has contracted with consultants in private industry and at the University of Buffalo and Alfred University to conduct research to perfect these solutions. Testing of these solutions in an MRI machine is expected to be conducted in the fourth quarter.

The Company announced, in the quarter just ended, a license from Johns Hopkins University for an issued patent for an MRI-Safe ECG and Pacemaker Lead. The license is exclusive for implantable devices and also covers other market segments. This is the only issued patent for MRI-safe pacing. This technology provides a low-pass RF filter at the electrode tip in the heart, and at the pacemaker device in the chest. This low-pass filter stops much of the energy traveling to the electrode tip in the heart. It is this energy, traveling along the metal wire lead, that causes heating and tissue scarring at the electrode tip of the pacemaker. This heating and scarring can cause a properly functioning pacemaker to stop sensing and/or pacing the heart hours after the patient leaves the MRI suite. Subsequently, when the heart needs to be paced, or defibrillated, the device may not function. The RF filter helps minimize the heating effect. Used in conjunction with the Company's proprietary shielding technologies, the problem can be significantly mitigated.

To further improve the chances for this approach to work, the Company has also filed patents for reducing the energy output of an MRI machine, to minimize the energy that causes lead heating. The combination of shielding, filtering, and MRI output reduction holds great promise for solving the MRI heating problem in pacemakers, defibrillators, and other medical devices.

The Company is considering licensing the photonic solution to one or more companies and licensing the shielding solutions to other companies. Each has its unique advantages and trade-offs, and has marketability across numerous market segments (pacemakers, neurostimulators, drug pumps, interventional devices, etc.)

Our aggressive patenting efforts help ensure that the Company will achieve its objective of being the primary supplier of solutions for making all biomedical devices MRI-safe.

The Company has filed 45 patents, in addition to the three exclusively

licensed patents from third parties. The Company believes it has substantial patent coverage on the technologies needed to achieve MRI safety by either the fiber-optic approach, or the filtering and shielding approach. The Company has not previously publicly disclosed the existence of its shielding and filtering solution, while it conducted negotiations for exclusive licenses. We are very pleased with the positive response and prospective licensing interest expressed by multiple organizations in the biomedical device industry and their component suppliers.

When the Company's temporary pacemaker is ready for market, it expects to sell devices to larger MRI centers who will then receive referral business from patients needing MRIs in their surrounding area. Each patient will require a one-time use fiber-optic temporary pacing lead. A single MRI center using the temporary pacemaker device would acquire catheters from Biophan or a distribution partner. It is this proprietary consumables business which drives the revenue and profit potential for this product. By dealing with cardiologists and electrophysiologists in larger MRI centers, we minimize the degree of sales and marketing coverage we need to seed the market with customers purchasing these proprietary, MRI-safe catheters. The Company plans to enter this market directly, using sub-contracted manufacturing.

The Company employs ten direct employees and conducts much of its R&D and prototype development through sub-contract arrangements with third parties. Greatbatch Enterprises, owned and operated by pacemaker inventor Wilson Greatbatch, has developed the fiber-optic prototype temporary pacemaker for the company under contract, and has assigned the related patents to Biophan. The Company is exploring manufacturing arrangements with FDA registered biomedical device manufacturing companies with expertise in the field. These manufacturers are capable of storing inventory and shipping product to third parties. Wherever possible, the Company leverages the plant and staff infrastructure of other companies, reducing the Company's burn rate and overhead and leveraging on third-party experience and know-how. Greatbatch Enterprises will continue to provide R&D and prototypes on a contract basis. Wilson Greatbatch recently resigned from the scientific advisory board, as he is winding down his day to day efforts. The Company believes that its engineering and research staff and its sub-contracting relationships are more than able to continue the R&D. Mr. Greatbatch's company has a team of engineers who have worked with him on pacemaker projects for many years. Further, the original working prototype of the fiber-optic pacemaker was developed for the Company by Greatbatch Enterprises with the help of a fiber-optic R&D company which is continuing to develop electro-optical innovations and prototypes for the Company.

Shielding R&D is conducted for the Company by University of Buffalo and Alfred University personnel. The Company enjoys a New York State matching fund grant for its University of Buffalo R&D which covers 40% of the R&D cost.

The Company conducts its MRI machine testing in rented MRI facilities in several cities.

The Company employs consultants as needed in the fields of MRI safety, MRI physics, electrical engineering, photonics, thin-film coating, and other disciplines. The Company's Vice Presidents of Research and Engineering each have over twenty-five years experience in the development and manufacture of biomedical devices and instrumentation. Stu MacDonald, our Vice President of R&D was VP of Instrumentation R&D for a $1 billion Johnson & Johnson company developing complex blood analytics and other devices; Jeff Helfer, our Vice President of Engineering, served as Director of Engineering, Director of New Business Development, and Director of Regulatory Affairs for Johnson &

Johnson. He also headed up several corporate level task forces responsible for overhauling regulatory procedures and implementing improved product development procedures. Both individuals have managed multi-disciplinary teams of up to several hundred individuals responsible for all phases of new product development, including applied research, product design, product manufacturing, and post-launch product support, including the commercialization of Class II and Class III medical devices.

The Company was at one time pursuing a patented antisense treatment for HIV, but has discontinued this R&D effort to focus 100% on MRI safety. The Company continues to hold two issued antisense patents, and is exploring licensing and/or sale of these assets. These patents are held by LTR Antisense, a wholly-owned subsidiary. The Company also has a subsidiary, MRIC Drug Delivery Systems, LLC, which was established to facilitate spinning off the Company's MRI-Safe insulin-pump technology.

The Company leases 4,000 square feet of space in West Henrietta, New York, a suburb of Rochester.

Further information on the Company and its research can be found on the Company's web site at http://www.biophan.com.

Liquidity and Capital Resources

During June 2002, the Company entered into a Stock Purchase Agreement with an institutional investor whereby the Company agreed to sell up to $2,400,000 of the Company's common stock. The minimum monthly sale of common stock under the Agreement shall be $250,000. The agreement requires the Company to file with the Securities and Exchange Commission ("SEC") a Registration Statement covering the shares issuable under this agreement. The Company can begin selling shares to the purchaser 20 days after the SEC declares the above-mentioned Registration Statement effective. The Company has not yet filed for registration.

In June 2002, the Company executed a line-of-credit agreement with Biomed that provided for borrowings up to $250,000. Interest accrues 8% per annum. Additionally, Biomed received warrants to purchase 325,000 shares of common stock at $1.00 per share. This agreement also extended the due date of the $500,000 due to Biomed under the Transfer Agreement by which certain technology was transferred to the Company, to September 1, 2002 and, at the option of Biomed, further extended to December 1, 2002. On August 19, 2002, the line was increased by $100,000 and the expiration date of that amount was set as August 19, 2003. In consideration of this, Biomed received additional warrants and all warrants held by Biomed were priced and repriced to be exercisable at 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. Biomed also has the option of converting amounts due on the same basis. At August 31, 2002, $300,000 had been borrowed under the line of credit.

Also in June 2002, the Company signed a Loan Agreement with a shareholder providing for borrowings of up to $400,000 with interest payable at 8% per annum. Principal and accrued interest become due and payable on December 31, 2003. To date, the Company has borrowed $143,570 under this Agreement.

Pursuant to offerings exempt from registration under Regulation S of the Securities Act, the Company raised net proceeds of $391,345 during July and August 2002.

Effective August 22, 2002, the Company entered into a finder's agreement with

a domestic consulting firm providing for the sale of restricted shares of common stock pursuant to Regulation D under the Securities Act. The finder receives a cash fee of 10% plus stock equal to 3% valued at a purchase price of $.35 per share. In September 2002, net cash proceeds of $103,500 were received under this agreement.

Management believes that the above-described financing arrangements will be sufficient to fund the next twelve months of operations and beyond. The proceeds will be applied to the ongoing R&D program for achieving MRI-safe implantable cardiac pacemakers and other devices as well as to administrative expenses.

Currently, the Company does not have a need for material capital expenditures in the conduct of its research and product development activities.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are presently no material pending legal proceedings to which the Company is a party or to which any of its property is subject and, to the best of its knowledge, no such actions against the Company are contemplated or threatened.

Item 2. Changes in Securities and Use of Proceeds

During the three-month period ended August 31, 2002, the Company issued a total of 1,413,886 shares of its common stock for gross cash proceeds of $403,330, less commissions and offering costs of $11,985. In connection with these transactions, the Company also issued 99,388 shares of its common stock as additional commission. The net proceeds from the sales were used by the Company for general working capital.

All of the aforementioned shares were issued to a total of 33 nonaffiliated, non-U.S. persons in offshore transactions exempt from registration under the Securities Act of 1933 and the shares are deemed restricted securities. For the issuance of these shares, the Company relied upon the exemption from registration provided by Regulation S of the Securities Act.

Item 3. Defaults Upon Senior Securities

This Item is not applicable to the Company.

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

This Item is not applicable to the Company.

Item 5. Other Information

This Item is not applicable to the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.3	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.4	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
10.1	Extension of Line of Credit Agreement between the Company and Biomed Solutions, LLC dated August 19, 2002
10.2	Amended Financial Accommodations Agreement between the Company and Bellador (Labuan) Ltd.

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the three months ended August 31, 2002.

SIGNATURES

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

BIOPHAN TECHNOLOGIES,INC.
(Registrant)

Date: October 15, 2002

By: /s/ Michael L. Weiner

Name: Michael L. Weiner,
Title: Chief Executive Officer

By: \s\ Robert J. Wood

Name: Robert J. Wood
Title: Chief Financial Officer