BIOPHAN TECHNOLOGIES INC
Form 10-Q/A
January 24, 2007

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

FORM 10-Q
Amendment #1

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: May 31, 2006

OR

|_| 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 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 (Registrant's telephone number, including area code)

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

Yes |X| No |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large Accelerated Filer |_| Accelerated Filer |X| Non-Accelerated Filer | |

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

Yes |_| No |X|

Indicate 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 July 5, 2006 - Common Stock, $.005 par value -

82,809,199 shares

EXPLANATORY NOTE

We are filing this Amendment #1 to our Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2006 for the following purposes:

(a) In Part I, Item 1, Financial Statements, to restate our financial statements to reflect a change in our accounting for our investment in Myotech, LLC a development stage company, and a developer of cardiac assist technologies. FASB Interpretation No. 46 (FIN-46R) (Revised December 2003), Consolidation of Variable Interest Entities, requires that if an enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the consolidated financial statements of the enterprise. On November 30, 2005 we acquired 3,768,488 Class A (voting) units of Myotech (representing a 35% equity interest), in exchange for 4,923,080 shares of our common stock valued at $8,467,698. This investment was previously accounted for using the equity method.

We have determined that Myotech is a variable interest entity in accordance with FIN-46R.and have concluded that we are the primary beneficiary as defined by FIN-46R . As a result, we are required to consolidate Myotech as of the date of acquisition of November 30, 2005. Therefore, the consolidated financial statements included in this amended Quarterly Report on Form 10-Q have been restated to include the accounts of Myotech.

(b) In Part I, Item 4, Controls and Procedures, to disclose our conclusions regarding the effectiveness of our financial reporting controls and procedures.

(c) In Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, to amend the financial analyses to reflect the restatement of financial statements as explained above.

(d) To amend such other financial information included elsewhere as affected by the restatement of our financial statements.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2006 (Unaudited) (Restated)	February 28, 2006 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 720,596	$ 1,477,716
Accounts receivable	76,510	170,058
Stock subscription receivable	1,700,000	--
Due from related parties	36,660	4,801
Prepaid expenses	95,474	147,203
Other current assets	58,677	81,048
Total current assets	2,687,917	1,880,826

Property and equipment, net	318,883	126,341
Other assets:		
Intangible assets, net of amortization:		
Myotech, LLC	24,107,192	24,451,580
Other	1,383,147	1.403,270
Investment in New Scale Technologies, Inc.	100,000	100,000
Security deposit	6,049	6,049
Deferred tax asset, net of valuation allowance of $8,539,000 and $7,560,000, respectively	--	--
	25,596,388	25,960,899
	$ 28,603,188	$ 27,968,066

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	1,745,311	1,191,812
Notes payable	47,258	15,886
Line of credit - related party, net of discount of $1,387,342 and $1,323,921, respectively	3,542,658	1,476,079
Due to related parties	28,691	26,548
Deferred revenues	270,833	520,833
Total current liabilities	5,634,751	3,231,158
Minority interest	14,448,205	15,189,109
Stockholders' equity:		
Common stock $.005 par value: Authorized, 125,000,000 shares Issued, 82,809,199 and 81,805,243 shares, respectively	414,046	409,026
Additional paid-in capital	52,426,986	49,576,129
	52,841,032	49,985,155
Treasury stock, 4,923,080 shares	(8,467,698)	(8,467,698)
	44,373,334	41,517,457
Deficit accumulated during the development stage	(35,853,102)	(31,969,658)
	8,520,232	9,547,799
	$ 28,603,188	$ 27,968,066

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		Period fr August 1, (date of inception)
	May 31, 2006 (Restated)	May 31, 2005	May 31, 2 (Restate
Revenues:			
Development payments	$ --	$ --	$ 300,
License fees	250,000	--	729,
Consulting fees	94,922	--	435,
	344,922	--	1,464,
Operating expenses:			
Research and development	2,588,408	1,599,742	15,607,
General and administrative	2,086,191	1,895,984	20,027,
Write-down of intellectual property rights	--	--	530,
	4,674,599	3,495,726	36,165,
Operating loss	(4,329,677)	(3,495,726)	(34,700,
Other income(expense):			
Interest expense	(303,473)	--	(3,175,
Interest income	6,343	2,749	135,
Other income	47,538	83,138	739,
Other expense	--	--	(65,
	(249,592)	85,887	(2,365,
Loss from continuing operations before minority interest in net loss of Myotech, LLC	(4,579,269)	--	(37,065,
Minority interest in net loss of Myotech, LLC	695,825	--	1,301,
Loss from continuing operations	(3,883,444)	(3,409,839)	(35,763,
Loss from discontinued operations	--	--	(89,
Net loss	$ (3,883,444)	$ (3,409,839)	$(35,853,
Loss per common share - basic and diluted	$ (0.05)	$ (0.05)	
Weighted average shares outstanding	76,893,764	74,417,378	

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended May 31,	
	2006 (Restated)	2005
Cash flows used for operating activities:		
Net loss	$ (3,883,444)	$ (3,409,83
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangible assets	364,511	13,64
Depreciation	9,340	9,41
Loss on disposal of equipment	--	1,50
Realized and unrealized losses on marketable securities	--	-
Accrued interest on note converted to common stock	--	-
Amortization of interest on convertible notes payable	--	-
Write-down of intellectual property rights	--	-
Amortization of discount on payable to related party	209,524	-
Issuance of common stock for services	--	-
Issuance of common stock for interest	--	-
Grant of stock options for services	580,954	1,462,08
Expenses paid by stockholder	--	-
Minority interest	(740,904)	76,49
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	93,548	-
(Increase) decrease in due from related parties	(31,859)	29,90
(Increase) decrease in prepaid expenses	51,729	15,83
(Increase) decrease in other current assets	22,371	5,91
(Increase) decrease in security deposits	--	(86
Increase (decrease) in accounts payable and accrued expenses	553,499	(5,04
Increase (decrease) in due to related parties	2,143	-
Increase (decrease) in deferred revenues	(250,000)	-
Net cash used in operating activities	(3,018,588)	(1,800,96
Cash flows used for investing activities:		
Purchases of property and equipment	(201,882)	(23,25
Sales of marketable securities	--	-
Purchase of investment	--	-
Acquisition costs of intangible assets	--	-
Cash paid for investment in Myotech, net of cash received of $19,408	--	-
Cash paid for acquisition of Biophan Europe, net of cash received of $107,956	--	-
Purchases of marketable securities	--	-
Net cash provided by (used in) investing activities	(201,882)	(23,25

See Notes to Condensed Consolidated Financial Statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Mont
	May
	2006
Cash flows provided by financing activities:	
Proceeds of bridge loans	--
Loan from stockholder	--
Line of credit borrowing from related party, net of discount	3,630,000
Line of credit payments	(1,500,000)
Notes payable	31,372
Proceeds from sales of common stock	300,000
Exercise of options	1,978
Exercise of warrants	--
Swing profits	--
Deferred equity placement costs	--
Net cash provided by financing activities	2,463,350
Net increase(decrease) in cash and cash equivalents	(757,120)
Cash and cash equivalents, beginning	1,477,716
Cash and cash equivalents, ending	$ 720,596
Supplemental schedule for cash paid for:	
Interest	$ 30,000
Supplemental schedule of non cash investing and financing activities:	
Allocation of proceeds from line of credit - related party to beneficial conversion feature and warrants	$ 272,945
Common stock issued for subscription receivable	$ 1,700,000
Issuance of common stock upon conversion of line of credit loans	$ --
Issuance of common stock for the acquisition of a 35% interest in Myotech, LLC	$ --
Issuance of common stock in satisfaction of accounts payable	$ --

See Notes to Condensed Consolidated Financial Statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months	
	May 3	
	2006	--
Liabilities assumed in conjunction with acquisition of 51% interest in Biophan Europe and certain intellectual property rights:		
Fair value of assets acquired		
Cash paid		
Promissory note issued		
Restricted stock issued		
Payables incurred		
Liabilities assumed	$ --	$
Issuance of common stock upon conversion of bridge loans	$ --	$
Acquisition of intellectual property	$ --	$
Intellectual property acquired through issuance of capital stock and assumption of related party payable	$ --	$

See Notes to Condensed Consolidated Financial Statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2006

INTERIM FINANCIAL STATEMENTS:

The condensed consolidated financial statements as of May 31, 2006 and for the three months ended May 31, 2006 and 2005 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. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the fiscal year ended

February 28, 2006.

BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of Biophan Technologies, Inc. ("Biophan"), its wholly owned subsidiaries, LTR Antisense Technology, Inc.("Antisense") and Nanolution, LLC, formerly MRIC Drug Delivery Systems, LLC, ("Nanolution"), its majority owned subsidiaries Biophan Europe GmbH ("Biophan Europe"), formerly aMRIs GmbH, and TE Bio LLC ("TE Bio"), and Myotech, LLC ("Myotech"), a variable interest entity, collectively referred to as the "Company". All significant inter-company accounts and transactions have been eliminated in consolidation.

FASB Interpretation No. 46 (FIN-46R) (Revised December 2003), Consolidation of Variable Interest Entities, requires that if an enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the consolidated financial statements of the enterprise.

COMPANY HISTORY:

The Company was incorporated under the laws of the State of Idaho on August 1, 1968 and on January 12, 2000, changed its domicile to Nevada by merging into a Nevada corporation, and on July 19, 2001, changed its name to Biophan Technologies, Inc. From the inception of the current line of business on December 1, 2000, the Company has not generated any material revenues. Therefore, the Company is in the development stage and will remain so until the realization of significant revenues. The Company's ability to continue in business is dependent upon maintaining sufficient financing or attaining future profitable operations.

PRINCIPAL BUSINESS ACTIVITIES:

The primary mission is to develop and commercially exploit technologies for improving the performance, and as a result, the competitiveness of biomedical devices manufactured by third party companies. The Company possesses technologies for enabling biomedical devices, both implantable and those used in diagnostic and interventional procedures, to be safe (do not harm the patient or physician) and compatible (allow effective imaging of the device and its surrounding tissue) with MRI (magnetic resonance imaging). The Company is also developing technologies for improving MRI contrast agents; for improved drug elution and drug delivery systems, including an MRI safe and image compatible ceramic motor; a system for generating power for implantable devices from body heat, and a series of implantable devices including an MRI-visible vascular implants such as a vena cave filter, a heart valve and an occluder for the treatment of atrial septal defects, a hole in the wall separating the left and right chambers of he heart. The Company's first licensee for several of these technologies is Boston Scientific (NYSE: BSX). The Company is also an owner of a substantial minority interest, with rights to take a majority interest, in Myotech, (accounted for as a variable interest entity) developers of the MYO-VAD, a cardiac assist device that does not contact circulating blood and utilizes technology that has the potential to become a standard of care in the device market for treating multiple types of acute and chronic heart failure including congestive heart failure and sudden cardiac arrest.

ACCOUNTING FOR STOCK- BASED COMPENSATION

The Company has a single stock-based compensation plan, entitled Biophan Technologies, Inc. 2001 Stock Option Plan (the "Plan") which is stockholder approved. The Plan provides for the granting of incentive and non-qualified stock options and restricted stock to selected employees, the granting of non-qualified options and restricted stock to selected consultants, directors,

and advisory board members. The Option Plan is administered by the Compensation Committee of the Board and authorizes the grant of options or restricted stock awards for 13,000,000 shares. The Compensation Committee determines which eligible individuals are to receive options or other awards under the Plan, the terms and conditions of those awards, the applicable vesting schedule, the option price and term for any granted options, and all other terms and conditions governing the option grants and other awards made under the Option Plan. Non-employee directors also receive periodic option grants pursuant to the automatic grant program in effect for them under the Plan. The Company's Board of Directors has adopted a new 2006 Incentive Stock Plan, subject to stockholder approval. If approved at the Annual Meeting of Stockholders on July 18, 2006, the new plan would authorize 7,500,000 shares for issuance pursuant to various types of stock-based awards.Effective March 1, 2006, the Company adopted SFAS No. 123 (revised), "Share-Based Payment" (SFAS 123(R)) utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R), we accounted for stock option grants to employees and directors in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" (the intrinsic value method) and adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation". Accordingly, employee compensation expense was recognized only to the extent that the fair value of our common stock on the date of grant exceeded the stock option exercise price.

Under the modified prospective approach, the Company applies the measurement principles of SFAS 123(R) to new grants and to grants that were outstanding on February 28, 2006 that are subsequently modified, repurchased or cancelled. Compensation cost recognized in the first quarter of fiscal 2007 includes compensation cost for all share-based payments granted prior to, but not yet vested as of February 28, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to February 28, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

As a result of adopting SFAS 123(R) on March 1, 2006, our net loss and basic and diluted loss per share for the three months ended May 31, 2006, were $477,949 and $ 0.006 per share greater than if we had continued to account for stock-based compensation under APB Opinion No. 25 for our stock option grants.

The following table illustrates the effect on operating results and per share information had the Company accounted for stock-based compensation in accordance with SFAS 123(R) for the three months ended May 31, 2005:

Net loss - as reported	$(3,409,839)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	1,339,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,155,000)
Net loss - pro forma	$(4,225,839)
Basic and diluted loss	

per share - as reported	$ (.05)
Basic and diluted loss per share - pro forma	$ (.06)

We use the Black-Scholes-Merton option pricing model to estimate the fair value of stock-based awards with the following weighted-average assumptions for the indicated periods:

Three months ended May 31,	2006	2005
Expected volatility	119.7-121.8	87.8
Risk-free interest rate	4.6%	4.08%
Expected life of options (years)	5-10 years	9-10 years
Weighted-average grant-date fair value	$1.46	$2.06
Expected dividends	-0-	-0-

The assumptions above are based on multiple factors, including historical exercise patterns of employees in relatively homogeneous groups with respect to exercise and post-vesting employment termination behaviors, expected future exercising patterns for these same homogeneous groups and the implied volatility of our stock price.

At May 31, 2006, there was $1,580,163 of unrecognized compensation cost related to stock-based payments which is expected to be recognized over a weighted-average period of 1.65 years.The following table represents stock option activity for the three months ended May 31, 2006:

	Number of Shares	Weighted-Average Exercise Price	Weig R Con
Outstanding options at beginning of period	9,594,020	$ .95	
Granted	80,000	$ 1.44	
Exercised	(3,956)	$ .50	
Forfeited	(92,000)	$ 1.18	
Outstanding options at end of period	9,578,064	$ .95	
Outstanding exercisable at end of period	6,759,314	$ .74	

Shares available for future stock option grants to employees and others under our 2001 Stock Option Plan were 247,982. At May 31, 2006, the aggregate intrinsic value of shares outstanding was $3.9 million, and the aggregate intrinsic value of options exercisable was $ 3.4 million. Total intrinsic value of options exercised was $3,165 for the three months ended May 31, 2006.

The following table summarizes our nonvested stock option activity for the three months ended May 31, 2006:

	Number of Shares	Weighted-Average Grant-Date Fair Va
Nonvested stock options at beginning of period	3,048,750	$ 1.31
Granted	--	--
Vested	138,000	$ 1.53
Forfeited	(92,000)	$ 1.53
Nonvested stock options at end of period	2,818,750	$ 1.29

RECLASSIFICATION

For comparative purposes, certain amounts in the accompanying statement of operations for fiscal 2006 have been reclassified to conform to the presentation used for fiscal 2007. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

REVENUE RECOGNITION:

The Company earns and recognizes revenue under development agreements when the phase of the agreement to which amounts relate is completed and the Company has no further performance obligation. Completion is determined by the attainment of specified milestones including a written progress report. Advance fees received on such agreements are deferred until recognized.

The Company recognizes initial license fees over the term of the related agreement. Revenue related to a performance milestone is recognized upon the achievement of the milestone, as defined in the respective agreements.

The Company recognizes revenues from testing services and consulting fees as services are performed.

STOCKHOLDERS' EQUITY

On May 27, 2005, the Company entered into a Stock Purchase Agreement with SBI Brightline XI, LLC. The agreement provides a $30 million fixed price financing for up to 10,000,000 shares at prices ranging from $2 to $4 a share. The sales of stock must be taken in sequential traunches of 1 million shares each and the financing agreement requires the shares to be registered for sale by SBI. There are no resets, warrants, finder's fees or commissions associated with this financing transaction. Registration of the shares for resale by SBI was effective on May 18, 2006 and the Company elected to put the first traunche of 1 million shares at $2 per share on May 23, 2006. Of the total proceeds of $2,000,000, $300,000 was received by May 31, 2006 and the balance was received on June 7, 2006.

INVESTMENT IN MYOTECH, LLC AND RESTATEMENT OF FINANCIAL STATEMENTS:

Effective November 30, 2005, we entered into a Securities Purchase Agreement for the acquisition of an initial 35% interest in Myotech, LLC ("Myotech"), a New York limited liability company, whereby we exchanged 4,923,080 shares of our common stock, par value $.005, for 3,768,488 Class A (voting) units of Myotech.

Based upon the terms of the Securities Purchase Agreement, we are obligated to purchase for cash consideration of $2.225 million an additional 811,037 Class A

units. We may elect to acquire up to an additional 3,563,097 Class A units for a further cash consideration of up to $9.775 million, over a 24-month period, which may result in the Company owning a majority interest in Myotech.

During the three month period ended February 28, 2006, Biophan provided $1,185,000 of additional funding for 431,946 newly issued Class A units of Myotech.

During the three month period ended May 31, 2006, Biophan has provided $675,000 of additional funding toward the cash consideration of $2.225 million cited above, for 246,045 newly issued Class A units of Myotech, which increased our ownership to 39.4.%. Biophan has also provided an additional amount of funding since May 31, 2006 of $250,000.

This investment was previously accounted for using the equity method. However, the Company has re-evaluated its investment in Myotech and has determined that Myotech is a variable interest entity in accordance with FASB Interpretation No. 46 (FIN-46R) (Revised December 2003), Consolidation of Variable Interest Entities. The Company has further concluded that it is the primary beneficiary as defined by FIN-46R and, as a result, the Company is required to consolidate Myotech as of the date of acquisition of November 30, 2005. Therefore, the consolidated financial statements of the Company have been restated to include the accounts of Myotech, LLC. The principal impact of this consolidation is an increase in assets due to the recording of the value of intangible assets acquired of $24,795,968, based on an independent appraisal, over the amount of the investment, and an increase in the amount of the minority interest representing outside interests in the equity of Myotech. Aggregate changes were as follows as of and for the three month period ended May 31, 2006:

	As Previously Reported	Adjustments Increase (Decrease)	As
Intangible assets, net	$ 929,522	$ 24,560,817	$ 2
Investment in Myotech, LLC	12,106,730	(12,106,730)	
Other assets	2,982,772	130,077	
	$ 16,019,024	$ 12,584,164	$ 2
Liabilities	$ 5,199,034	$ 435,717	$
Minority interest	24,464	14,423,741	1
Capital stock	414,046	-0-	
Additional paid-in capital	45,830,060	6,596,926	5
Treasury stock	-0-	(8,467,698)	(
Accumulated deficit	(35,448,580)	(404,522)	(3
	$ 16,019,024	$ 12,584,164	$ 2
Operating loss-three months ended 5/31/06	$(3,128,438)	$ (1,201,239)	$ (
Net loss- three months ended 5/31/06	$ (3,648,277)	$ (235,167)	$ (

The $1.20 million increase in the operating loss for the three month period ended May 31, 2006 is primarily due to additional research and development

charges of approximately $1.05 million, which includes $0.35 million of amortization of intangible assets.

The following is selected financial data for Myotech, LLC:

	May 31, 2006
Total current assets	$ 23,167
Intangible assets,net	24,107,192
Other assets	218,925
Total assets	$ 24,349,284
Current liabilities	$ 547,732
Equity	23,801,552
	$ 24,349,284

	Three Months Ended May 31, 2006
Net loss from operations	$ (1,259,843)

LINE OF CREDIT AGREEMENT:

On January 24, 2006, we entered into a Line of Credit Agreement (the "Line of Credit Agreement") with Biomed, a related party, pursuant to which Biomed has committed to make advances to us, in an aggregate amount of up to $5,000,000. Under the Line of Credit Agreement, advances may be drawn down in such amounts and at such times as we determine upon 15 days prior notice to Biomed, except that we may not draw down more than $1,500,000 in any 30-day period. Amounts borrowed will bear interest at the rate of 8% per annum and are convertible into shares of our Common Stock at the rate of $1.46 per share. Biomed's obligation to lend to us under the Line of Credit Agreement expires on June 30, 2007, on which date the entire amount borrowed by us (and not converted into shares of our Common Stock) becomes due and payable. We are obligated to utilize the entire credit facility. In connection with the establishment of the credit facility under the Line of Credit Agreement, on January 24, 2006 we issued to Biomed a Stock Purchase Warrant (the "Warrant") entitling Biomed to purchase up to 1,198,630 shares of our Common Stock at an exercise price of $1.89 per share. The Company recorded an additional discount of $272,945 on incremental borrowings during the quarter of $2,650,000 due to the beneficial conversion feature of the note. The discount is being amortized as additional interest expense over the term of the note. During the quarter ended May 31, 2006 amortization of the discount on the note resulted in a non-cash interest expense of $209,524. Biomed's purchase rights under the Warrant expire on January 23, 2011. The Company is required to make its best efforts to register the common stock underlying the warrants and it is not required to settle any part or all of the instruments with cash. Accordingly, these instruments are classified as equity. The balance of borrowings on the line was $4,430,000 at May 31, 2006. The fair value of the note is not readily determinable as there is a limited market for such related party debt.

On May 27, 2005, we entered into a Line of Credit Agreement with Biomed, a related company, whereby Biomed agreed to provide a line of credit facility of up to $2 million. Borrowings under the line bear interest at 8% per annum, are

payable on demand after August 31, 2006 and are convertible, at Biomed's election into the Company's common stock at 90% of the average closing price for the 20 trading days preceding the date of borrowings under the line. In June 2005, the Company borrowed the entire $2 million under the line in two separate draws of $1 million each and, in accordance with the agreement, Biomed received warrants to purchase 500,000 shares of the Company's common stock at an exercise price of 110% of the average closing price for the 20 trading days preceding the date of execution of the credit agreement. The Company recorded a discount on the borrowings of $958,160 due to the beneficial conversion feature of the note as well as for the value of the warrants. The discount was amortized as additional interest expense over the term of the note and has been fully amortized as of November 30, 2005. On August 31, 2005, Biomed elected to convert $1 million of the note plus accrued interest into 480,899 shares of common stock at which time, the remaining discount related to the $1 million portion of the loan was fully expensed. On October 7, 2005, we repaid $500,000 of principal and all accrued interest on the loan. The balance of borrowings on the line was $500,000 at May 31, 2006.

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

The discussion and analysis set forth below in this Item 2 have been amended to reflect the restatement of our consolidated financial statements for the fiscal year ended February 28, 2006 and for the period ended May 31, 2006, as described above in the Explanatory Note to this amended Quarterly on Form 10-Q and in the Note entitled "Investment in Myotech, LLC and Restatement of Financial Statements," to Condensed Consolidated Financial Statements included in Item 1 above. For this reason, the data set forth in this section may not be comparable to discussions and data in our previously filed Quarterly Reports.

All statements contained in this Item 2, unless they are specifically otherwise stated to be made as of a different date, are made as of July 10, 2006, the original filing date of our Quarterly Report on Form 10-Q for the period ended May 31, 2006, and do not reflect events occurring after the filing of our Quarterly Report on Form 10-Q filed on July 10, 2006 other than the restatement, and we undertake no obligation to update the forward-looking statements in this amended Quarterly Report on Form 10-Q.

GENERAL

Our primary mission is to develop and commercially exploit technologies for improving the performance, and the corresponding competitiveness, of biomedical devices manufactured by third party companies. We do not currently employ our own manufacturing or distribution channels but rather rely on relationships with sub-contractors and/or partner companies. We develop technology protected by strong intellectual property targeted at specific markets within the medical technology sector.

COMPANY BUSINESS

We are a technology development company with a strong focus on solving real-world technical challenges facing the medical device industry. When selecting a market opportunity to address, we have generated a wide range of potential technical solutions. Each technical solution we pursue is well-protected by intellectual property to ensure that we have the capability to effectively market our technologies. Whenever practical, we attempt to develop and patent multiple solutions for any given technology requirement. This is done both to strengthen our position against competitors, and to be in a position to

offer multiple manufacturers alternative solutions, such as for MRI safety of pacemakers, or MRI visibility of Vascular stents, as we introduce our technologies to the market.

This approach has resulted in the development of a range of core technologies, in various related segments of the medical device market. We are aggressive in development and defense of our intellectual property assets and have an intellectual property portfolio several times the size of many comparable sized companies.

Over the past quarter, we have:

o Continued to develop and market our technology to solve the problems of MRI safety that prevent people with pacemakers, cardio-defibrillators, neurostimulators, pain control devices, pumps, and virtually any implanted or interventional device with elongated metal leads to undergo MRI;

o Hosted the first Biophan Symposium on MRI Safety at the SMIT2006 Conference in Pebble Beach, CA, where we presented issues of MRI Safety. Presentations were given by the FDA and the NIH, validating the issues of MRI heating of medical devices which have been the subject of some industry debate. The sessions were attended by Medtronic, Boston Scientific, Guidant, and St. Jude, and workshops were conducted between several of these companies, Biophan, and the FDA on how to research and define test methods for measuring MRI safety of medical implants under MRI, which will be required to eventually remove the current contraindication of these devices.

o Held meetings with representatives of multiple medical device companies concerning Biophan's solutions for MRI safety, and entered into currently ongoing negotiations with several of these companies in which we have responded to requests for pricing for exclusive and co-exclusive licensing options;

o Recognized over $344,000 in revenue from licensing, MRI testing, and consulting to the industry. We expect to recognize additional revenue from these transactions in the next several quarters.

o Supported development of a new cardiac assist device, the MYO-VAD, through our relationship with Myotech LLC. The MYO-VAD is a life-saving device that provides benefits and competitive advantages not possible with other cardiac assist devices. In the past, this technology has saved human lives and holds tremendous promise for the treatment of multiple forms of acute and chronic heart failure.

o Continued optimization of our technology to improve stents so they can be imaged with MRI to detect the presence of restenosis (blockage) after implantation; this technology is licensed exclusively to Boston Scientific (NYSE:BSX), who has rights to enforce and/or sub-license the technology to third parties.

o Continued development of an MR image compatible vena cava filter, which allows MR imaging of blood clots that may be present in the filter to ensure safe removal of the device. We are also developing a heart valve which can be imaged and also implanted under MRI and an occluder device to treat atrial septal defects a hole in the septum between the left and right atria which will be the first occluder to be visible as well as implantable under MRI.

o We have made progress on our other technology areas including drug elution and drug delivery systems with "active release" using non-invasive or minimally invasive activation; a power system to generate electricity from body heat, and

improved contrast agents.

LICENSING AND JOINT VENTURE STRATEGY

BOSTON SCIENTIFIC LICENSE

On June 30, 2005, we entered into a licensing agreement with Boston Scientific Scimed, Inc. The agreement provides Boston Scientific with the right to use Biophan's MRI safety and image compatibility technology in a broad range of exclusive and non-exclusive product areas at royalty rates of 3% to 5%. The exclusive product area includes vascular implants, and RF ablation catheters, and the non-exclusive product area covers a broad array of medical devices including MRI safe pacemakers, defibrillators, neurostimulators, guidewires and catheters.

Boston Scientific has the right to sub-license the exclusive product areas to third parties, with Biophan and Boston Scientific to share all proceeds from these parties. The agreement also provides for milestone payments to Biophan for specific product areas which may be as high as several million dollars per product. In addition, the agreement required Boston Scientific to make an initial upfront payment to Biophan of $750,000, which was made on the closing of the agreement and is being amortized over twelve months and to make annual minimum royalty and potentially substantial annual earned royalty payments; and receive a right of first negotiation on new technologies acquired by Biophan in the fields of MRI safety and image compatibility. The initial $750,000 payment was made on August 2, 2005 and will be recognized as revenue over the next 12 months. Accordingly, one quarter of the $750,000, or $187,500 was recorded as revenue in the current quarter ended May 31, 2006.

In December, 2005, we received $250,000 for the first annual minimum payment under our license. The agreement calls for milestone payments upon achievement of significant project milestones, and requires payment of royalties for products sold incorporating our technologies. Boston Scientific has sublicensing rights to certain technologies, sharing revenue with Biophan, and other product lines will revert to Biophan in the event of non-performance. The agreement includes non-exclusive rights to our technology for making pacemakers, defibrillators and neurostimulators safe and image compatible for use with MRI, and extends to any companies in which they acquire a 50% or greater interest. As a result, both Guidant, and Advanced Bionics, acquired by Boston Scientific since we closed our license with them, are eligible to use our technology in their products. This agreement is available as an Exhibit to our 10-Q for the quarter ended August 31, 2005, as amended on January 9, 2005.

Revenue from this $250,000 payment is being recognized over 12 months. Accordingly, for the three months ended May 31, 2006, the Company recorded $62,500 in revenue from this payment.

ACQUISITION OF INTELLECTUAL ASSETS

We currently have an overall estate of 237 patents issued and pending. The total includes 176 U.S. patents licensed, issued, allowed or pending (56 of which have been issued) and 61 international patents or applications in process.

We believe that a strong and broad intellectual property portfolio is vital to our ability to achieve and maintain royalties and product sales to major industrial partners across our product lines.

These technologies cover a broad array of capabilities, with primary focus on our core businesses of:

o making medical devices safe for use with MRI, as many are contraindicated, including pacemakers, defibrillators and neurostimulators

o making devices such as stents visible under MRI so that they can be non-invasively examined for in-stent restenosis. Today an invasive angiogram procedure is required. We believe that non-invasive imaging of stents is a feature which can move market share between otherwise competitive devices.

The technologies allowing visualization of implants have been developed at Biophan, and with technology partners under exclusive license, including aMRIs Patents GmbH in Germany (via an exclusive license); Aachen Resonance in Germany (via an exclusive license); and Nanoset, LLC in the U.S. (via an exclusive license). Biophan holds both sub-licensing and enforcement rights (rights to litigate) under these agreements. The patents include those licensed from Nanoset, LLC. Nanoset's technology can be used to reduce image artifacts caused by implantable and interventional medical devices.

The patent total also includes those licensed as part of the Biophan Europe acquisition whereby we obtained worldwide exclusive rights to a significant patent portfolio totaling fifteen issued and pending patents covering critical capabilities needed by the medical industry as the use of MRI interventional medicine and MRI diagnostics for examination of stents and other implants becomes standard medical procedure.

On an ongoing basis we review our patent portfolio to ensure we are protecting our innovations and new discoveries in those strategic areas of our business where we believe the medical device industry is heading. To ensure the continuing value of our intellectual assets, we intend to aggressively defend our patents and licensed technology, both domestically and abroad. Additionally, our license agreement with Boston Scientific gives them enforcement rights in the areas of our business which are exclusive to them. They also have sub-licensing rights, should they elect to allow one of their competitors to enjoy access to those technologies.

LIQUIDITY

As further described under the heading "Line of Credit Agreement" in Notes to Condensed Consolidated Financial Statements, our affiliate Biomed Solutions, LLC, a related company, provided us with a $5 million Line of Credit. Under the Line of Credit agreement, advances may be drawn down in such amounts and at such times as we determine upon 15 days prior notice to Biomed, except that we may not draw down more than $1,500,000 in any 30-day period. Amounts borrowed will bear interest at the rate of 8% per annum and are convertible into shares of our Common Stock at the rate of $1.46 per share. Biomed's obligation to lend to us under the line of credit agreement expires on June 30, 2007, on which date the entire amount borrowed by us (and not converted into shares of our Common Stock) becomes due and payable. We are obligated to utilize the entire credit facility. at terms we believe to be competitive to comparable transactions. Biomed Solutions is headed by Biophan CEO Michael Weiner, who is also a substantial beneficial owner of Biomed Solutions. The balance of borrowings on the line was $4,430,000 at May 31, 2006.

In addition, on May 27, 2005, we entered into a Line of Credit Agreement with Biomed, whereby Biomed agreed to provide a line of credit facility of up to $2 million. Borrowings under the line bear interest at 8% per annum, are payable on demand after August 31, 2006 and are convertible, at Biomed's election into the Company's common stock at 90% of the average closing price for the 20 trading days preceding the date of borrowings under the line. In June 2005, the Company borrowed the entire $2 million under the line in two separate draws of $1 million each, in accordance with the agreement. On August 31, 2005, Biomed

elected to convert $1 million of the note plus accrued interest into 480,899 shares of common stock at which time, the remaining discount related to the $1 million portion of the loan was fully expensed. On October 7, 2005, we repaid $500,000 of principal and all accrued interest on the loan. The balance of borrowings on the line was $500,000 at May 31, 2006.

As described in greater detail under the heading "Stockholders' Equity" in the "Notes to Condensed Consolidated Financial Statements", we have a current financing agreement with SBI Brightline XI, LLC for a $30 million fixed price financing for up to 10,000,000 shares at prices ranging from $2 to $4 a share. The sales of stock must be taken in sequential traunches of 1 million shares each and the financing agreement requires the shares to be registered for sale by SBI. Registration of the shares for resale by SBI was effective on May 23, 2006 and the Company elected to sell the first traunche of 1 million shares at $2 per share on May 23, 2006. The funds from the sale of this first traunches have been received.

We anticipate the next sale of 1,000,000 shares of common stock to SBI Brightline XI, LLC in the second fiscal quarter of 2007 and we plan to use this capital on an as needed basis to fund operations. Additionally, certain negotiations in process with several medical device companies may generate additional working capital in the form of up-front licensing fees and/or royalty advances.

Effective November 30, 2005, we entered into a Securities Purchase Agreement for the acquisition of an initial 35% interest in Myotech, LLC ("Myotech"). A New York limited liability company, whereby we exchanged 4,923, 080 shares of our common stock, par value $.005. for 3,768,488 Class A (voting) units of Myotech. Based upon the terms of the Securities Purchase Agreement, we were obligated to purchase for cash consideration of $2.225 million an additional 811,037 Class A units. We may elect to acquire up to an additional 3,563,097 Class A units for further cash consideration of up to $9.775 million, over a 24-month period, which may result in the Company owning a majority interest in Myotech. During the three month period ended February 28, 2006, Biophan provided $1,185,000 of additional funding for 431,946 newly issued Class A units of Myotech. During the three month period ended May 31, 2006, Biophan has provided $675,000 of additional funding toward the cash consideration of $2.225 million cited above for 246,045 newly issued Class A units of Myotech, which increased our ownership to 39.4%. Additional investments of $250,000 have been made since May 31, 2006.

The independent members of our Board of Directors negotiated, recommended and approved all terms of this transaction. Our Board of Directors, including the independent members, determined that the transaction was in the best interests of Biophan's stockholders.

Based upon the terms of the Securities Purchase Agreement, we are obligated to purchase for cash consideration of $2.225 million an additional 811,037 Class A units. We may elect to acquire up to an additional 3,563,097 Class A units for a further cash consideration of up to $9.775 million, over a 24-month period, which may result in the Company owning a majority interest in Myotech. Alternatively, the Company has the right to terminate further investment under provisions of the stock purchase agreement.

During the three month period ended May 31, 2006, Biophan has provided $0.675 million of additional funding, for a total of $1.860 million toward the cash consideration of $2.225 million cited above, for 677,991 newly issued Class A units of Myotech, which increased our ownership to 39.4%. Biophan has also

provided an additional amount of funding since May 31, 2006 of $250,000. We believe that funding available under the SBI stock purchase agreement, the Biomed lines of credit, and the Boston Scientific investment will provide the Company with adequate working capital resources for the upcoming 12 months of operations including the ability to fund, as needed, potential additional acquisitions and expansion of operations.

RESULTS OF OPERATIONS

The following comments discuss the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of the Company for the three months ended May 31, 2006 as compared to the three months ended May 31, 2005.

COMPARISON OF THE THREE MONTHS ENDED MAY 31, 2006 AND 2005

REVENUES

Revenues were $0.345 million for the three months ended May 31, 2006 as compared to no revenues for the three months ended May 31, 2005. The increase is due to development contract payments and license fees from Boston Scientific Scimed, and operating revenues from our European subsidiary, which consisted primarily of MRI-related testing and consulting services to medical device manufacturers.

OPERATING EXPENSES

Research and Development. Research and development expenses increased by 62%, to approximately $2.588 million for the three months ended May 31, 2006 from approximately $1.600 million for the three months ended May 31, 2005. Stock options expense (non cash expense) amounted to $0.278 million in the three months ended May 31, 2006 under FAS 123R and $0.794 million in the three months ended May 31, 2005 due primarily to the accounting for contingent stock options. After consideration of these expenses, research and development expenses increased by approximately $1.500 million or 187%, to approximately $2.310 million for the three months ended August 31, 2006 from approximately $0.805 million for the three months ended August 31, 2005.

Because we consolidated Myotech LLC at November 30, 2005, the three months ended May 31, 2006 include approximately, $0.703 million of operating expenses and $0.344 million in amortization expenses pertaining to Myotech's intangible assets. With the inclusion of Myotech, and aside the increase in expense due to amortization expenses, the increase in expenses is primarily attributable to spending on certain research projects of approximately $1.125 million and increased salary-related expenses of approximately $0.100 million.

General and Administrative. General and administrative expenses increased by 10% to approximately $2.086 million for the three months ended May 31, 2006 from approximately $1.896 million for the three months ended May 31, 2005. Stock options expense (non cash expense) amounted to $0.303 million in the three months ended May 31, 2006 under FAS 123R and $0.668 million in the three months ended May 31, 2005 due primarily to the accounting for contingent stock options. After consideration of these expenses, general and administrative expenses increased by approximately $0.555 million or 45%, to approximately $1.783 million for the three months ended May 31, 2006 from approximately $1.228 million for the three months ended May 31, 2005.

Because we consolidated Myotech LLC at November 30, 2005, the three months ended May 31, 2006 include approximately, $0.156 million of operating expenses With

the inclusion of Myotech, the increase in expenses is primarily attributable to spending for legal fees of $0.230, outside financial compliance, audit services and other professional services of $0.200 million, and increased costs related to salaries $0.195 million, combined with decreased spending for other activities.

OTHER INCOME (EXPENSE)

Interest Expense. We incurred interest expense amounting to approximately $0.303 million for the three months ended May 31, 2006 compared to no expense for the three months ended May 31, 2005. The expense pertained to a $5 million line of credit from Biomed Solutions, LLC ("Biomed"). This borrowing included a beneficial conversion feature of $0.209 million (non cash expense) and normal interest expense of $0.094 million.

Minority Interest in Net Loss of Myotech LLC

The loss of $0.696 million is a pro rata share of the loss incurred by Myotech, LLC attributable to minority interests for the three months ended May 31, 2006. There was no investment in Myotech LLC or loss on investment in Myotech LLC for the three months ended May 31, 2005. As further described under the heading "Investment in Myotech LLC and Restatement of Financial Statements" in the "Notes to Condensed Consolidated Financial Statements" the Company holds a 39.4% interest in Myotech LLC, which we must consolidate as a variable interest entity since the Company is deemed to be the primary beneficiary in the relationship with Myotech.

CAPITAL RESOURCES

Our current strategic plan does not indicate a need for material capital expenditures in the conduct of research and development activities.

We currently employ twenty-five full-time individuals, twenty in the U.S. and five in Europe.

FORWARD LOOKING STATEMENTS

Forward looking statements in this Form 10-Q and in other documents incorporated herein, as well as in oral statements made by the Company, statements that are prefaced with the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "designed" and similar expressions, are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, results of operations and financial position. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances about which the Company can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect subsequent events or circumstances. Forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or unanticipated.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments.

As of May 31, 2006, the Company did not participate in any derivative financial instruments, or other financial and commodity instruments for which fair value disclosure would be required under SFAS No. 107.

Primary Market Risk Exposures.

The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's investment portfolio of cash equivalents is subject to interest rate fluctuations, but the Company believes this risk is immaterial due to the short-term nature of these investments. For the three months ended May 31, 2006, foreign currency translation gains were approximately $300 as a result of consolidating the Company's foreign subsidiaries. During the period, the Company did not engage in any foreign currency hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Restatement

FASB Interpretation No. 46 (FIN-46R) (Revised December 2003), Consolidation of Variable Interest Entities, requires that if an enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the consolidated financial statements of the enterprise. The Company has invested in Myotech, LLC, (Myotech) a development stage business, and a developer of cardiac assist technologies. This investment was made on November 30, 2005 in the form of a Securities Purchase Agreement, whereby the Company received 3,768,488 Class A (voting) units for a 35% interest in Myotech, in exchange for 4,923,080 shares of our common stock valued at $8,467,698. This investment was previously accounted for using the equity method.

The Company has re-evaluated its investment in Myotech and has determined that Myotech is a variable interest entity in accordance with FIN-46R. The Company has further concluded that it is the primary beneficiary as defined by FIN-46R and, as a result, the Company is required to consolidate Myotech as of the date of acquisition of November 30, 2005. Therefore, the consolidated financial statements of the Company included in this Report on Form 10-Q, have been restated to include the accounts of Myotech, LLC.

(b) Evaluation of Disclosure Controls and Procedures

In connection with the restatement, under the direction of our Chief Executive Officer and our Chief Financial Officer, we reevaluated our disclosure controls and procedures. We identified our failure to recognize and apply the correct criteria, as explained in FIN 46R, for the proper accounting for our investment in Myotech, LLC on November 30, 2005 as a material weakness in our internal control over financial reporting. Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of November 30, 2005 or for the quarterly periods ended February 28, 3006, May 31, 2006 and August 31, 2006.

(c) Remediation of Material Weakness in Internal Control

We are confident that, as of the date of this filing, we have fully remediated the material weaknesses in our internal control over financial reporting with respect to the item cited above. The remedial actions included:

- Improving education and accounting reviews to ensure that personnel involved in entity investments and asset purchases understand and apply the pertinent accounting principles appropriate to the nature of the transaction.

In connection with this amended Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as currently in effect and as a result of the remedial actions discussed above, have concluded that as of this date our disclosure controls and procedures are effective.

(d) Management's Report on Internal Control Over Financial Reporting (as restated)

The management of Biophan Technologies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 30, 2005, February 28, 2006, May 31, 2006 and August 31, 2006, based on the framework and criteria established in Internal Control -- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our Quarterly Report on Form 10-Q for the period ended November 30, 2005 (filed on January 17, 2006), in our Annual Report on Form 10-K for the year ended February 28, 2006 (originally filed on May 15, 2006 and amended on June 6, 2006) and in our Quarterly Reports on Form 10-Q for the periods ended May 31, 2006 (filed on July 10, 2006) and ,August 31, 2006 (filed on October 13, 2006) management concluded that our internal control over financial reporting was effective as of the end of the periods covered by such reports. Subsequently, management identified material weaknesses in internal control over financial reporting with respect to accounting for the investment in Myotech, LLC on November 30, 2005. Solely as a result of these material weaknesses, our management has revised its earlier assessment and has now concluded that our internal control over financial reporting was not effective as of November 30, 2005, or for the quarterly periods ended February 28, 2006, May 31, 2006 and August 31, 2006.

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, except as noted below. 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.

The Company is pursuing legal claims against one of its former law firms and certain of its attorneys. Review of the firm's work product and bills recently revealed questions about the firm's billing practices and other activities. The amount of potential damages has not yet been quantified. Also, the law firm has asserted claims seeking payment of additional legal fees, which claims the Company has denied. The litigation is in an early stage. While, as with any legal proceedings, no assurance can be given as to ultimate outcome, management believes that the outcome of the litigation will not have a material adverse effect upon the Company's financial condition.

ITEM 1A. RISK FACTORS

There are no material changes from risk factors as previously disclosed in the Company's Form 10-K/A for the fiscal year ended February 28, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 23, 2006, we issued and sold to SBI Brightline XI, LLC ("SBI") 1,000,000 shares of our Common Stock, at a price of $2.00 per share (or $2,000,000 in the aggregate). The purchase price represented a premium of $0.73 per share (or approximately 57.5%) over the $1.27 per share closing price of our Common Stock on the over-the-counter market on the date of sale.

We intend to use the proceeds from this sale of shares for general operating expenses, including the funding of ongoing research and development efforts.

The sale was made pursuant to the Stock Purchase Agreement dated as of May 27, 2005 between us and SBI (as amended by Amendment No. 1 thereto dated January 9, 2006, the "Stock Purchase Agreement"). The shares sold on May 23 constitute the first of ten traunches of shares which we may require SBI to purchase under the Stock Purchase Agreement. Each traunche consists of 1,000,000 shares and may be sold to SBI at any time, in our sole discretion. The shares in the various traunches are issuable at increasing prices, ranging from $2.00 to $4.00 per share. If the Stock Purchase Agreement facility is fully utilized, we would receive aggregate proceeds of $30,000,000, at an average price of $3 per share.

The issuance and sale of the shares was made without registration under the Securities Act of 1933 in reliance on the exemption for private placements not involving a public offering provided in Section 4(2) thereof.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Location
31.1	Certification of C.E.O. pursuant to Rule 13a-14(a)	Filed herewith
31.2	Certification of C.F.O. pursuant to Rule 13a-14(a)	Filed herewith
32.1	Certification of C.E.O. pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350	Filed herewith
32.2	Certification of C.F.O. pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350	Filed herewith

SIGNATURES

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

BIOPHAN TECHNOLOGIES, INC.
(Registrant)

By: /s/ Michael L. Weiner

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

By: /s/ Darryl L. Canfield

Name: Darryl L. Canfield
Title: Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)

Date: January 24, 2007