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BIOPHAN TECHNOLOGIES INC
Form 10QSB
July 15, 2002

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

FORM 10-QSB

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

For the period ended: May 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)

(716) 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.

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 June 30, 2002
Common Stock, \$.005 par value	29,549,439

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

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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

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Technologies, Inc. and Subsidiaries as of May 31, 2002, and the related consolidated statements of operations and cash flows for the three-month periods ended May 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.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

July 1, 2002

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

CONSOLIDATED BALANCE SHEETS

	May 31, 2002 (Unaudited)	February 28, 2002
ASSETS		
Current Assets:		
Cash	\$ 61,845	\$ 12,199
Investments in marketable securities	-	568,805
Prepaid expenses and other current assets	30,236	91,819
Total Current Assets	92,081	672,823
Fixed Assets, at cost, net	82,180	80,882
Other Assets:		
Intellectual property rights	110,000	110,000
Security deposit	2,933	2,933
Deferred private equity placement costs	45,000	-

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Deferred tax asset, net of valuation allowance of \$1,979,000 and \$1,305,000 respectively

	-	-
	157,933	112,933
	\$ 332,194	\$866,638

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

Current Liabilities:

Accounts payable and accrued expenses	\$ 259,831	\$129,040
Payables to related party	700,000	500,000
Due to related parties	38,943	16,349
	998,774	645,389
Total Current Liabilities		

Stockholders' Equity (Deficiency):

Common stock, \$.005 par value		
Authorized, 60,000,000 shares		
Issued and outstanding,		
29,549,439 shares	147,747	147,747
Additional paid-in capital	4,658,407	4,608,407
Deficit accumulated during the development stage	(5,472,734)	(4,534,905)
	(666,580)	221,249
	\$ 332,194	\$866,638

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Period from August
	May 31,		1, 1968 (date of
	2002	2001	inception) to
			May 31, 2002
Operating expenses:			
Salaries and related	\$ 171,213	\$ 73,873	\$ 692,703
Research and development	451,815	125,099	1,514,083
Professional fees	140,493	13,658	1,490,094
Write-down of intellectual property	-	-	490,000
General and administrative	165,309	22,391	667,389
	(928,830)	(235,021)	(4,854,269)
Operating loss			
Other income (expense):			

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Interest income	16,608	1,037	44,288
Interest expense	(10,300)	(18,713)	(563,843)
Other income	13,498	-	55,533
Other expense	(28,805)	-	(65,086)
	(8,999)	(17,676)	(529,108)
Loss from continuing operations	(937,829)	(252,697)	(5,383,377)
Loss from discontinued operations	-	-	(89,357)
Net loss	\$ (937,829)	\$ (252,697)	\$ (5,472,734)
Loss per common share			
-basic and diluted	\$ (0.03)	\$ (0.01)	
Weighted average shares outstanding	29,549,439	25,565,532	

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended		Period from August
	May 31,		1, 1968 (date of
	2002	2001	inception) to
			May 31, 2002
Cash flows used for operating activities:			
Net loss	\$ (937,829)	\$ (252,697)	\$ (5,472,734)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	6,376	250	21,305
Losses on marketable securities	28,805	-	66,948
Write-down of intellectual property rights	-	-	490,000
Amortization of discount on payable to related party	-	15,500	75,000
Issuance of common stock for services	-	-	101,108
Issuance of common stock for interest	-	-	468,823
Grant of stock options for services	50,000	-	752,800
Expenses paid by stockholder	-	-	2,640
Changes in operating assets and liabilities:			
(Increase) decrease in prepaid expenses	61,583	-	(30,236)
Increase in security deposits	-	-	(2,933)
Increase(decrease) in accounts payable and accrued expenses	130,791	34,842	246,500
Increase(decrease) in due to related parties	222,594	40,562	195,447
	(437,680)	(161,543)	(3,085,332)
Cash flows used for investing activities:			
Purchases of fixed assets	(7,674)	-	(103,485)
Sales of marketable securities	540,000	-	917,270
Purchases of marketable securities	-	-	(984,218)

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	532,326	-	(170,433)
Cash flows provided by financing activities:			
Proceeds of bridge loans	-	-	986,500
Net proceeds from sales of capital stock	-	-	2,376,110
Payments for deferred private equity placement costs	45,000		45,000
	-----		-----
	45,000	-	3,362,610
	-----		-----
Net increase(decrease) in cash and equivalents	49,646	(161,543)	61,845
Cash and cash equivalents, beginning	12,199	172,092	-
	-----		-----
Cash and cash equivalents, ending	\$ 61,845	\$ 10,549	\$ 61,845
	=====		=====
Supplemental schedule of noncash investing and financing activities:			
Intellectual property acquired through issuance of capital stock and assumption of related party payable	\$ -	\$ -	\$ 175,000
	=====		=====
Acquisition of intellectual property	\$ -	\$ -	\$ 425,000
	=====		=====

See Notes to Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2002

INTERIM FINANCIAL STATEMENTS:

The consolidated financial statements as of May 31, 2002 and for the three months ended May 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.

PRINCIPAL BUSINESS ACTIVITIES:

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.

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

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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.

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 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 469,759 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 \$2,349 to capital stock and \$467,410 to additional paid-in capital.

The principal business activity of the Company is enabling implantable and interventional medical devices to operate safely and compatibly with MRI (Magnetic Resonance Imaging) diagnostic equipment.

The Company is in the development stage and is expected to remain so for at least the next twelve months. The Company has not generated any operating revenue to date.

DEFERRED PRIVATE EQUITY PLACEMENT COSTS:

In connection with proposed private equity placements, the Company has

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incurred costs of \$45,000 as of May 31, 2002. These costs will be netted against the expected proceeds from the placements.

LINE OF CREDIT AGREEMENT:

In May, 2002, the Company initiated a line-of-credit agreement with Biomed that provides for borrowings up to \$250,000 with interest at 8% per annum and warrants to purchase 125,000 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, may be further extended to December 1, 2002. In consideration of this, Biomed received 250,000 warrants exercisable at \$1.00 per share. At May 31, 2002, \$200,000 had been borrowed under the line of credit and currently, borrowings are \$250,000.

SUBSEQUENT EVENTS:

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.

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.

On July 1, 2002, the Company entered into a finder's agreement with a Malaysian corporation providing for the sale of up to 1,000,000 restricted shares of common stock to foreign investors. The shares may be purchased at the closing bid price on the previous day. Finder's fees are payable at 35% of the proceeds in cash and 10% in restricted shares. Shares sold and issued in connection with this agreement will be pursuant to the exemption from registration provided in Regulation S of the 1933 Securities Act.

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.

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Results of Operations

During the year-ago quarter ended May 31, 2001, the Company pursued the development of its proprietary technology, realized no revenues and incurred research and development expenses of \$125,099 and other general and administrative expenses of \$109,922 plus interest expense of \$18,713. The net loss for the quarter was \$252,697. The Company has remained in the development stage from that time through the quarter ended May 31, 2002 and realized no operating revenues. During the quarter ended May 31, 2002, the Company pursued the development of its proprietary technology, incurring research and product development expenses of \$451,815 and other general and administrative expenses of \$477,015. Interest expense of \$10,300 was incurred in connection with short-term borrowings from an affiliated company, Biomed Solutions, LLC (Biomed) (formerly Biophan, LLC).

Liquidity and Capital Resources

In May 2002, the Company initiated a line-of-credit agreement with Biomed that provides for borrowings up to \$250,000 with interest at 8% per annum and warrants to purchase 125,000 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, may be further extended to December 1, 2002. In consideration of this, Biomed received 250,000 warrants exercisable at \$1.00 per share. At May 31, 2002, \$200,000 had been borrowed under the line of credit and currently, borrowings are \$250,000.

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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.

On July 1, 2002, the Company entered into a finder's agreement with a Malaysian corporation providing for the sale of up to 1,000,000 restricted shares of common stock to foreign investors. The shares may be purchased at the closing bid price on the previous day. Finder's fees are payable at 35% of the proceeds in cash and 10% in restricted shares.

Management believes that the above-described new financing arrangements will be sufficient to fund the next twelve months of operations and beyond. The proceeds will be applied to the 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.

At May 31, 2002, the Company employed 11 individuals.

PART II. OTHER INFORMATION

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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

This Item is not applicable to the Company.

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

- 4.1 Stock Purchase Warrant between the Company and Biomed Solutions, LLC dated June 4, 2002
- 4.2 Stock Purchase Warrant between the Company and Bonanza Capital Masterfund LTD
- 10.1 Line of Credit Agreement between the Company and Biomed Solutions, LLC dated June 4, 2002
- 10.2 Convertible Promissory Note between the Company and Biomed Solutions, LLC dated June 4, 2002
- 10.3 Loan Agreement between the Company and H. Deworth Williams dated June 18, 2002.
- 10.4 Stock Purchase Agreement between the Company and Bonanza Capital Masterfund LTD
- 10.5 Escrow Agreement between the Company, Bonanza Capital Masterfund LTD and Boylan, Brown, Code, Vigdor & Wilson LLP
- 10.6 Registration Rights Agreement between the Company and Bonanza Capital Masterfund LTD
- 10.7 Executive Employment Agreement between the Company and Michael L. Weiner dated December 1, 2000
- 10.8 Executive Employment Agreement between the Company and Jeffrey L. Helfer dated June 6, 2002

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- 10.9 Executive Employment Agreement between the Company and Stuart G. MacDonald dated June 6, 2002
- 10.10 Executive Employment Agreement between the Company and Robert J. Wood dated June 6, 2002
- 10.11 Financial Accommodations Agreement between the Company and Bellador (Labuan) Ltd dated July 1, 2002

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the period ended May 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: July 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