BIOPHAN TECHNOLOGIES INC
Form 10QSB
October 06, 2004

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

FORM 10-QSB

|X| Quarterly Report under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended: August 31, 2004

|_| Transition Report under Section 13 or 15(d)
of the Exchange Act of 1934

For the transition period from ____ to ____

Commission File No. 0-26057

BIOPHAN TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	82-0507874
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
150 Lucius Gordon Drive, Suite 215 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 5, 2004
Common Stock, $.005 par value	69,888,685

Transitional Small Business Disclosure Format (Check One): Yes |_| No |X|

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Biophan Technologies, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Biophan Technologies, Inc. and Subsidiaries (the "Company") as of August 31, 2004, and the related condensed consolidated statements of operations for the

three-month and six-month periods ended August 31, 2004 and 2003, and the statements of cash flows for the six-month periods ended August 31, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, 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 condensed consolidated interim financial statements for them to be in conformity with United States generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Biophan Technologies, Inc. and Subsidiaries as of February 29, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended and the amounts included in the cumulative column in the consolidated statements of operations and cash flows for the period from August 1, 1968 to February 29, 2004 (not presented herein). In our report dated March 30, 2004, 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 29, 2004, 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

September 27, 2004

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

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	August 31, 2004 (Unaudited)
Current Assets:	
Cash	$ 160,067
Investments in marketable securities	430,000
Stock subscription receivable	1,100,000
Due from related parties	203,583
Prepaid expenses	118,072
	2,011,722

Property and equipment, net	77,760
Other Assets:	
Intellectual property rights	70,000
Investment	100,000
Security deposit	2,933
Deferred equity placement costs	-
Deferred tax asset, net of valuation allowance of $3,662,000 and $2,926,000, respectively	-
	172,933
	$ 2,262,415

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	$ 270,767
Deferred revenue	225,000
	495,767
Stockholders' Equity :	
Common stock, $.005 par value Authorized, 125,000,000 shares Issued and outstanding, 69,888,685 and 65,945,011 shares, respectively	349,443
Additional paid-in capital	15,363,162
	15,712,605
Deficit accumulated during the development stage	(13,945,957)
	1,766,648
	$ 2,262,415

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 August 31,	Six Months En August 31,

	2004	2003	2004	
Revenues:				
Development payments	$ -	$ -	$ -	$
Operating expenses:				
Salaries and related	148,318	129,861	283,022	
Research and development	573,846	201,786	1,000,061	
Professional fees	128,894	149,567	194,766	
Write-down of intellectual property	-	-	-	
General and administrative	499,592	119,709	867,487	
	1,350,650	600,923	2,345,336	
Operating loss	(1,350,650)	(600,923)	(2,345,336)	
Other income(expense):				
Interest expense	-	(134,413)	-	
Interest income	5,126	362	5,984	
Other income	43,319	37,520	85,122	
Other expense	-	-	-	
	48,445	(96,531)	91,106	
Loss from continuing operations	(1,302,205)	(697,454)	(2,254,230)	
Loss from discontinued operations	-	-	-	
Net loss	$ (1,302,205)	$ (697,454)	$ (2,254,230)	$
Loss per common share-basic and diluted	$ (0.02)	$ (0.02)	$ (0.03)	$
Weighted average shares outstanding	67,665,026	39,070,506	67,042,379	

See Notes to Condensed Consolidated Financial Statements.

BIOPHAN TECHNOLOGIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Six Months Ended
August 31,

	2004	20
Cash flows used for operating activities:		
Net loss	$ (2,254,230)	$ (
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	11,993	
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 - related payable	-	
Issuance of common stock for services	-	
Issuance of common stock for interest	-	
Grant of stock options for services	70,000	
Expenses paid by stockholder	-	
Changes in operating assets and liabilities:		
(Increase)decrease in advances receivable	-	
(Increase)decrease in due from related parties	(169,361)	
(Increase)decrease in prepaid expenses	(48,887)	
Increase in security deposits	-	
Increase(decrease) in accounts payable and accrued expenses	16,709	
Increase(decrease) in due to related parties	-	
Increase in deferred revenues	225,000	
	(2,148,776)	
Cash flows provided by investing activities:		
Purchases of fixed assets	(28,539)	
Sales of marketable securities	720,000	
Purchase of investment	(100,000)	
Purchases of marketable securities	-	
	591,461	
Cash flows provided by financing activities:		
Proceeds of bridge loans	-	
Loan from stockholder	-	
Line of credit borrowing from related party	-	
Line of credit payments	-	
Proceeds from sales of capital stock	100,000	
Exercise of options	-	
Exercise of warrants	788,900	
Short swing profits	26,689	
Deferred equity placement costs	(22,107)	
	893,482	
Net increase(decrease) in cash	(663,833)	
Cash, beginning	823,900	
Cash, ending	$ 160,067	$

Supplemental schedule of noncash investing and financing activities:		
Common stock issued for subscription receivable	$ 1,100,000	$
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	$ -	$
Issuance of common stock upon conversion of related party loans	$ -	$

See Notes to Condensed Consolidated Financial Statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2004

INTERIM FINANCIAL STATEMENTS:

The condensed consolidated financial statements as of August 31, 2004 and for the three-month and six-month periods ended August 31, 2004 and 2003 are unaudited. However, in the opinion of management of the Company, these financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position and results of operations for such interim periods. The results of operations for the interim periods presented are not necessarily indicative of the results to be obtained for a full year.

BASIS OF CONSOLIDATION:

The condensed consolidated financial statements include the accounts of Biophan Technologies, Inc. ("Biophan"), its wholly owned subsidiaries, LTR Antisense Technology, Inc. ("Antisense") and Nanolution, LLC (formerly MRIC Drug Delivery Systems, LLC) ("Nanolution") and its 51% owned subsidiary TE Bio LLC, (collectively referred to as the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

ORGANIZATIONAL HISTORY:

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

The Company was inactive until December 1, 2000, when the LTR Antisense Technology, Inc., a New York corporation ("LTR"), was acquired 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. LTR owns multiple patents for proprietary HIV antisense gene therapy technology. At the same time, the Company acquired intellectual property rights, including a pending patent to MRI-compatible pacemaker technology from Biomed, for future consideration of $500,000.

PRINCIPAL BUSINESS ACTIVITIES:

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

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 provide intellectual property licenses to manufacturers of these biomedical devices.

ACCOUNTING FOR STOCK OPTIONS:

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

	Three Months Ended August 31,		
	2004	2003	
Net loss - as reported	$ (1,302,205)	$ (697,454)	$
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	40,000	30,000	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(67,000)	(64,000)	
Net loss - pro forma	$ (1,329,205)	$ (731,454)	$
Basic and diluted loss per share - as reported	$ (.02)	$ (.02)	$

Basic and diluted loss per share - pro forma	$ (.02)	$ (.02)	$

PREPAID EXPENSES:

Prepaid expenses at August 31, 2004 consist of the following:

Prepaid royalties	$ 25,000
Prepaid legal fees	20,000
Prepaid insurance	54,947
Prepaid supplies	18,125
	$ 118,072

INVESTMENT:

Represents a 10% investment in common stock of New Scale Technologies, Inc., stated at cost.

DEFERRED REVENUE:

Represents development payments received from a strategic partner which will be recognized as revenue upon completion of the deliverables outlined in the contract.

CHANGES IN EQUITY:

At the Annual Stockholders Meeting on July 13, 2004, stockholders approved an increase in the authorized shares of common stock from 80,000,000 to 125,000,000.

During the quarter ended August 31, 2004, a total of 1,024,075 shares of common stock were issued upon exercise of warrants at prices ranging from $.25 to $1.00. Proceeds of $397,100 were received increasing the capital stock account by $5,120 and additional paid-in capital by $391,980. Additional paid-in capital was also increased by $40,000 of expense related to stock options granted for services and by part payment of $26,689 of profits from a related company owed pursuant to the "short swing profit" rules of Section 16(b) of the Securities and Exchange Act of 1934.

During the quarter, the Company exercised the first tranche under the SBI financing agreement for 2,000,000 shares @ $.60 per share. Of this amount, $100,000 was received in August and the balance in September 2004. Related offering expenses of $41,998 were charged to additional paid-in capital.

ITEM 2. PLAN OF OPERATION

We are currently in the development stage of operations and expect to be in that mode for at least the next several quarters. Our primary mission is to develop and commercially exploit technologies for enabling biomedical devices, both implantable and those used in diagnostic and interventional procedures, to be

safe (not harm the patient or physician) and compatible (allow effective imaging of the device and its surrounding tissue) with MRI.

We have successfully demonstrated effective solutions for making devices which use long metal wire leads, such as pacemakers, defibrillators, neurostimulators, et al. safe for use with MRI and that these solutions provide a meaningful margin of safety. Our solutions address both the problems of device heating and induced voltages in pacemakers, defibrillators, and neurostimulators, which are the two primary problems associated with the use of MRI for patients with these devices. Today, approximately 3 million people have devices that cause them to be denied access to MRI when needed, due to safety concerns and regulatory (FDA and other) contraindications. If manufacturers of these devices incorporated our solutions into their products, they can be made safe for use with MRI.

Additionally, there is a rapidly growing field of medicine known as minimally invasive surgery, using devices such as guidewires and catheters to do many procedures in cardiology, oncology and other specialties. The majority of procedures are done in catheter labs equipped with X-ray or fluoroscopy devices for imaging and guiding the procedures. Many of these devices do not offer the advantages of tissue visualization and discrimination provided by MRI. The combined problems of device safety (they heat up and may induce electrical stimulation) and the image artifacts created by these devices in MRI, have limited the use of MRI machines in this rapidly growing area of medicine. The desire and need for MRI is demonstrated by the advent of catheter labs which have both X-ray devices for guiding devices into the body, and MRI machines for evaluating progress and observing tissue and results. In these new operating theaters, the patients are moved back and forth on a conveyor belt-like system between the imaging devices.

For the past four years, Biophan has been actively engaged in solving the complex problems associated with device safety and imaging under MRI that cause this odd and expensive combination of devices so that, with the advent of our solutions, the industry now, for the first time, has the choice to develop MRI safe and image compatible devices that can be used with MRI.

Biophan has two solutions for resolving the heating of braided metal wire objects such as pacemaker leads (in which we include pacemaker and defibrillator leads) and neurostimulator leads (including deep brain stimulation, or DBS, systems for Parkinson's and epilepsy; systems for pain control, etc.). One solution is an RF filter, licensed from Johns Hopkins exclusively for implantable devices, which can resolve lead heating (it is the metal wire lead connecting a device to the body that is the cause of most of the MRI safety problems). Additionally, to resolve the problems associated with very long metal wires such as surgical guidewires and catheters, we have been engaged in previously secret work within Biophan to develop "anti-antenna geometries" in these leads. By slightly altering the way the leads are made, we can create self-canceling attributes that resolve the radio frequency related problems that cause the heating in the lead. An additional anti-antenna geometry significantly reduces induced voltages. Together, these solutions allow making an MRI-safe lead and device. Several broad patents for this innovation were filed several years ago, and recently the U.S. Patent and Trademark Office allowed a patent which will issue within the next several weeks. As a result, we have now gone public with our solutions, and we have demonstrated the success of this approach to prospective customers and industry experts. We have begun manufacturing samples of devices modified with this solution, which is extremely cost effective. We have modified a pacemaker lead for a pacemaker company concerned with pacemaker safety, which is currently being evaluated by that company.

This modification of the windings of a metal device has broad application. It can also address a significant limitation associated with virtually all stents, medical devices used to keep vessels open. It is very difficult to see inside the stent to determine if blockage is occurring, once the stent is installed in

the body. Currently, no diagnostic systems such as X-ray or fluoroscopy are effectively able to see inside of a stent.

We have demonstrated that we can make stents visible within an MRI machine using this method. It works. Researchers in Europe have also demonstrated at conferences that this approach works, and there are some stents shipping in Europe using this approach. The solution requires a change in the way most stents are made. We recently filed nine continuations of our original patent application, applying this innovation to other devices, such as stents, guidewires and catheters. The stent, guidewire and catheter businesses are very large and have many players who compete with one another for competitive advantage. This solution to both heating and stent imaging has broad implications.

Additionally, our primary work for resolving image artifacts that occur when imaging devices in the body with MRI uses thin film nanomagnetic particle coatings, developed by Nanoset, LLC, in collaboration with Biophan. We recently produced MRI images showing an aluminum rod which could not be seen in the MRI image, and next to it showed two identical rods which were quite visible, as a result of having our thin film coating applied. Additionally, the tip of these rods had a bright "glow", making it easy to spot in the MRI image. This image is available from our web site at www.biophan.com. This capability is part of the suite of technologies that can help make MRI a viable solution for interventional diagnostics and surgery. Once again, we have a solution that works, covered by both issued and pending patents. We are also working on coatings that can improve visibility under MRI using thin film coatings described above. The advantage of a coating solution is that a manufacturer with a product in the market or in development does not have to radically change the physical design manufacturing process. Thus, the coating solution, which we are pursuing, has broad applications for the rapidly growing stent market.

There is considerable industry interest in these approaches to making devices imageable under MRI. The solution has to be applied to the device itself, and is not something that can be incorporated in the MRI machine. However, the solution is of interest to MRI manufacturers we have met with, all of whom benefit from seeing the aforementioned expansion in the use of MRI for interventional medicine and expanded diagnostics (as with stents, and other applications). MRI is also used extensively in oncology, due to its ability to discriminate tissue types.

Image compatibility also has benefits to the pacemaker device manufacturers. The goal of making pacemakers safe for MRI is to allow a pacemaker patient who may need an MRI scan for staging a cancer operation, and subsequent follow-up, or to diagnose a brain tumor, or back or knee problem, etc. However, a device made safe will still cause a significant image artifact where the pacing lead enters the heart or, in the case of a neurostimulator, where that device lead enters to brain, or the spinal cord, etc. By adding "image compatibility" to a pacemaker made safe, it may be possible to enable a pacemaker patient to one day have an MRI angiogram, and avoid having to have an invasive procedure. Similarly, a patient with a Deep Brain Stimulator (DBS) device can undergo a full power MRI of the brain if their lead is not only safe, but also image compatible.

As a result of the growing awareness of the problems outlined here and our broad patent portfolio, we are seeing an increased interest from the medical device industry in our solutions. We are in various stages of discussions and negotiations with several companies regarding the utilization of our technology. The value to our prospective customers is competitive advantage with the potential to gain increased market share, which is the strategy behind all of

Biophan's initiatives.

On June 3, 2004, we acquired a 51% interest in TE Bio LLC, a company developing an implantable biothermal battery using body heat gradients to power medical devices such as pacemakers, defibrillators, and drug pumps. The biothermal battery technology is based on a patented innovation in the utilization of thermoelectric materials, using nanoscale-based, thin-film materials to convert thermal energy produced naturally by the human body into electrical energy. The resulting power can be used to "trickle charge" batteries for medium-power devices such as defibrillators, or directly power low-energy devices like pacemakers. It is enabled by nanotechnology which provides the ability to put thousands and thousands of small semi-conductor nodes that convert heat to electricity in a space about the size of one or two postage stamps. We presented the technology at the NASPE Heart Rhythm Society meeting in San Francisco earlier this year and received substantial industry interest from major device manufacturers. We have recruited several consultants experienced in this technology to assist us in developing it.

Biophan committed $300,000 annually for a three-year period, and marketing and management support to TE Bio, in exchange for Biophan's 51% interest. TE Bio was founded by Biomed Solutions, LLC, an affiliate and the company from which Biophan spun out in December 2000. The independent board members of Biophan evaluated the technology and authorized the acquisition, after conclusion of a third party feasibility study.

To manage the growing R&D and customer interactions in the MRI technology business and the biothermal business, we have expanded our staff to support these projects.

John Lanzafame, an experienced medical device executive, who joined Biophan in September as President of Biophan's new Nanolution division, focused on leveraging recent discoveries in nanotechnology such as Biophan's nanomagnetic particles for the purposes of drug delivery and drug elution from devices. Mr. Lanzafame has 15 years experience in the medical device industry, most recently as President of STS Biopolymers, a company specializing in customized surfaces, including drug eluting coatings for stents and indwelling catheters. STS Biopolymers was acquired in late 2003 by Angiotech Pharmaceuticals, which licensed the use of paclitaxel on stents to Boston Scientific. Mr. Lanzafame has experience in drug delivery, product development and sales and marketing, and will bring his breadth of experience both to the newly formed drug delivery division, as well as to assist in development and marketing of the MRI-related products.

We have retained Tim Bibens, formerly Director of Operations for the Ortho Clinical Diagnostics, a J & J company, and prior to that a Supply Chain Manager at Allied Signal, to oversee our MRI safety and image compatibility projects, reporting to Jeff Helfer, our VP-Engineering.

Sarah Cooper, a research fellow and chemical engineer at NASA's Ames Center for Nanotechnology, has been an active participant in the biothermal battery project. Ms. Cooper's fellowship ends in September 2004, and we have extended an offer to her to work with us as a consultant on the biothermal battery project.

We have retained additional technical consultants to augment our staff's research and development efforts on the MRI safety and compatibility project and the biothermal battery project.

We do most of our thin film coating research and development at Alfred University, in coordination with Nanoset, LLC. To facilitate this, we have helped Alfred construct a clean room facility to be used for our coating experiments and sample preparation.

On June 4, 2004, we announced that we had acquired from New Scale Technologies, Inc. the exclusive worldwide distribution rights for the medical market for New Scale's ceramic "SQUIGGLE(TM) motor", including the multi-billion dollar drug delivery market. Developed to meet the growing demand for high precision, low cost actuation devices, the motor is currently on the market generating revenues and is available for OEM integration today. The motor uses no metal wire windings (one of the primary causes of image interference under MRI), is capable of both linear and rotational movement, and can move forward and backwards several inches at nanometer increments, thereby providing a controllable drug release environment.

As part of the exclusive distribution agreement, Biophan will provide sales and marketing to the medical device industry on behalf of New Scale and has also made a $100,000 investment in the company for a 10% interest. The motor offers several advantages for driving drug pumps, and other medical applications. Using only four parts (other motors can have as many as 100 parts), it provides a unique combination of high reliability, flexibility, and power consumption advantages. By using ceramic components and no windings, it is very compatible with MRI imaging.

This product also fits in with our strategic plan to be a provider of proprietary new technologies to our OEM customers and prospects. While we continue to provide solutions that will one day enable all biomedical devices to be MRI-safe and image compatible, we have expanded our focus to bring additional, proprietary innovations to our customers. We continue to maintain an ongoing and in-depth dialogue with both research and development and business development executives at many of the largest manufacturers of biomedical device companies. This interaction gives us a broad view of the short- and long-term needs of these companies for support of both their current and future product lines.

We share gross profit equally with New Scale Technologies, the inventor and manufacturer of the technology. Biophan provides sales and marketing, and a $25,000 quarterly advance, reconcilable against current year sales, to New Scale, which enables New Scale to further develop unique capabilities for the medical market. The motor is already on the market for non-medical applications and evaluation units are being sold to customers around the world. The motor is currently under review by several biomedical device manufacturers of drug pumps and other devices.

On February 5, 2004, we entered into a second stock purchase agreement with SBI Brightline Consulting, LLC that obligates SBI to purchase, upon our election, up to 17,750,000 shares of our common stock for an aggregate purchase price of $25 million. SBI is not obligated to purchase shares pursuant to this stock purchase agreement unless the resale of the shares by SBI is registered under the Securities Act. Only 6,000,000 shares covered by this stock purchase agreement were registered for resale by SBI, because we previously had insufficient authorized shares. SBI is not obligated to purchase the unregistered shares covered by the stock purchase agreement until we have registered the resale of such shares by SBI and then only upon our election. Our stockholders approved the proposal to amend our articles of incorporation to increase the number of authorized shares and we will now decide whether to register additional shares for resale by SBI, which will give us the right to sell such additional shares under the stock purchase agreement. Until the stockholder approval, which allows us to sell shares at the higher $2 per share price, the SBI transaction was less attractive. During the quarter ended August 31, 2004, we sold the first tranche of 2 million shares for $1.2 million.

An additional factor influencing our decision to exercise all or part of the remaining SBI financing involves negotiations with several biomedical device and pharmaceutical companies, which may involve a combination of R&D development and/or licensing payments, as well as a strategic investment in equity in our company. Such an investment, should it occur, may resolve, in whole or in part, our capital requirements for listing on a major stock exchange, as well as provide us with working capital to continue our research, and possible milestone payments. As a result, we intend to be prudent in our exercise of the SBI line, even with its very attractive fixed price aspects. One of the companies we are working with is preparing a term sheet, and one of the terms that is being negotiated will be an equity investment in the company which will require that we issue preferred stock. As a result, we are in the process of calling a special meeting of stockholders to seek approval for reducing the number of authorized common shares by 15 million and establishing an equal number of authorized preferred shares.

Therefore, depending on the number of shares of stock that we sell to SBI under the stock purchase agreement or a potential strategic investment, or a combination thereof, the capital provided by such sales should enable us to satisfy the net worth requirements for a planned stock exchange listing.

We estimate that our current working capital, and proceeds from the sale of our common stock pursuant to the SBI stock purchase agreement already registered or a potential equity investment from a strategic relationship, will be sufficient to satisfy our projected cash requirements over the next 12 months. Our estimate of these cash requirements is as follows:

Research and product development(including R&D and marketing for the ceramic motor and biothermal battery projects, including additional human resources)	$1,732,000
Operating expenses, including administrative salaries and benefits, office expenses, rent expense, legal and accounting, publicity, investor relations	2,204,000
Total Cash Requirements	$3,936,000

We have adopted and are following three major strategic initiatives for fiscal 2005:

(1) Acquisition of Intellectual Assets, (2) Market Expansion, and (3) Strategic Partnerships.

(1) Biophan currently has an overall estate of 92 patents, inclusive of those assigned and licensed, and including filed applications and allowed and issued patents.

From the perspective of ownership:

- 35 are licensed from Nanoset, LLC, Johns Hopkins University, and Dr. Deborah Chung; these deal with MRI safety and compatibility, as well as MRI contrast agents and other nanoparticles technology.

- 3 are licensed by TE Bio LLC, which is in turn majority controlled by Biophan; these deal with biothermal power technology.

- 1 is a patent applied for by New Scale Technologies, Inc. covering a miniature ceramic motor. Biophan has exclusive marketing and distribution rights for medical applications of this technology.

- 53 are directly assigned to Biophan; these deal with MRI safety and compatibility and a variety of other medical device opportunities.

Of the 92:

- 21 have issued as U. S. patents.

- 7 have been allowed and will issue as patents in the near future.

- 64 are patent applications in various stages of prosecution in the USPTO.

The patents also include those licensed from Nanoset, LLC. Nanoset's technology can be used to reduce image artifacts on implantable and interventional medical devices and for a new class of applications to enhance the uptake, release and monitoring of drugs in medical device coatings. TE Bio is developing our biothermal battery technology.

We are aggressively pursuing internal research and development projects, as well as sourcing leading-edge providers of related technologies. Intellectual property, such as technology solutions and patents, may be developed internally, through joint ventures, licensed in, or purchased. To ensure the continuing value of our intellectual assets, we intend to aggressively defend our patents and licensed technology, both domestically and abroad.

(2) We currently enjoy a leadership position in developing technologies designed to make implanted medical devices, such as pacemakers, safe for use with MRI and other diagnostic imaging tools. We have also developed technologies that allow medical devices to be used for interventional procedures, under MRI, without the heating problems that can cause tissue damage or imaging problems which can obscure the outcome of the procedures. Today most interventional procedures are performed under X-ray, CT scan, or fluoroscopy and expose both physicians and patients to ionizing radiation. Physicians need to wear heavy lead aprons that can cause back problems, etc., and patients are sometimes exposed to substantial radiation doses. If the MRI safety and compatibility issues of interventional devices were solved and devices were on the market, we believe that there would be a significant migration of procedures, over time, to use with MRI.

Based on discussions underway with several biomedical device manufacturers, and MRI manufacturers, both in the U.S. and overseas, we plan to expand the use of the technologies we have developed to make a wider range of devices compatible with MRI. These technologies reduce radio frequency interference, heating, and induced voltages. Since the beginning of 2004, we have expanded our development and partnering activities related to these technologies to include guidewires, stents, drug pumps, biopsy needles and other prosthetic and surgical tool devices, where the lack of MRI compatibility negatively impacts investigational and diagnostic procedures.

Discussions with these device manufacturers indicate a need for, and an interest in, solutions to additional problems based on our technology. We have used both surrogate devices (such as copper rings) and actual manufactured implantable products, in a gel phantom, to demonstrate our ability to accurately image devices and their interior spaces in a manner that could not be done previously. Part of our strategic initiative for the current fiscal year will include

expanding our technology offerings to the companies with whom we are already in discussions or collaborating. These arrangements may include payments for R&D, licensing, equipment and materials purchases, milestone payments, as well as possible strategic investments.

An example of our expanding on the use of our nanomagnetic particle coating technology is NanoView. The concept of our NanoView technology is to utilize nanomagnetic particles, a specific type of nanotechnology, as MRI contrast agents to preferentially bind to tissues of diagnostic interest with the goal of improving detail and contrast in MRI diagnostic image processes. We expect NanoView to improve performance in terms of signal intensity and the use of multiple markers, which broadens the applications of MRI imaging. The ability to bind different, distinct markers to different antigens allows the potential for highlighting multiple features of interest, making them differentiable under MRI. We have begun discussions with several manufacturers of contrast agents and others in the diagnostic materials sector.

(3) Leveraging strategic partnerships is vital to our mission. In November, 2003, we announced that we had entered into a joint development agreement with Boston Scientific, a major medical device manufacturer. We have successfully completed the first phase of a multi-phase development plan with Boston Scientific, and we are currently working in the second and third phases of this program. Relationships such as this one help us validate our technology and also develop potential sales channels. We have entered into non-disclosure agreements with a number of major manufacturers of implanted biomedical and related devices. We are discussing with these companies potential strategic partnership arrangements that may include joint development projects, original equipment manufacturing arrangements and licensing agreements.

In November 2003, we recorded $75,000 as a development payment from Boston Scientific for prototype development of a prospective product adaptation. The development activities related to this payment have been completed. We are currently in the second phase of this agreement and have received $225,000 as an advance payment for the second and third phases which are underway. We are in ongoing discussions concerning additional phases of this initiative that, which if completed and successful, may lead to a license for one or more of our technologies in the context of one or more product lines. We are in discussion with Boston Scientific for an expanded relationship involving license fees, milestones and royalties.

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

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

ITEM 3. CONTROLS AND PROCEDURES

Based on their evaluation as of the end of the period covered by this quarterly

report on Form 10-QSB, our principal executive officer and principal financial officer, with the participation and assistance of our management, concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, were effective in design and operation. There have been no changes in our system of internal control over financial reporting in connection with the evaluation by our principal executive officer and principal financial officer during our fiscal quarter ended August 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended August 31, 2004, the Company issued 1,024,075 shares of common stock upon exercise of warrants, receiving aggregate gross proceeds of $397,100. Of the total, 498,000 shares were issued at $.25 per share; 506,950 shares were issued at $.50 per share, and 19,125 shares were issued at $1.00 per share. The Company also exercised the first tranche under a financing agreement with SBI Brightline Consulting, LLC issuing 2,000,000 shares at $.60 per share for gross proceeds of $1,200,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On Tuesday, July 13, 2004, pursuant to proper notice to stockholders, the Company held its Annual Meeting of Stockholders at the Company's offices in West Henrietta, New York. At the Meeting, the following directors were elected, by the indicated vote, to serve as directors until the next Annual Meeting of Stockholders or until their successors are elected and qualified.

Nominee	For	Abstain
Guenter H. Jaensch	44,959,177	61,189
Michael L. Weiner	44,956,977	63,389
Steven Katz	44,974,191	46,175
Ross B. Kenzie	44,978,561	41,805
Robert S. Bramson	44,972,191	48,175

A proposal was also made to amend the Company's Articles of Incorporation to increase the number of common shares authorized to be issued from 80,000,000 to 125,000,000 shares. The proposal carried by a vote of 43,924,431 for, 952,235 against and 91,700 abstaining.

A proposal to increase the number of shares reserved for issuance under the 2001 Stock Option Plan from 7,000,000 to 13,000,000 was approved by a vote of 9,178,761 for, 1,312,206 against and 132,514 abstaining.

Lastly, stockholders ratified the appointment of Goldstein Golub Kessler, LLP, as independent auditors of the Company for the fiscal year ending February 28,

2005 by a vote of 44,928,302 for, 23,050 against and 17,014 abstaining.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index

No.		
2.1	Articles of Merger	Incorporated by reference to Exhibit 3.2 to Biophan's Form 10-KSB for the year ended February 29, 2000 (the "2000 10-KSB")
2.2	Articles of Dissolution	Incorporated by reference to Exhibit 3.3 to the 2000 10-KSB
2.3	Exchange Agreement, dated as of December 1, 2000, by and among Biophan, Biomed Solutions, LLC (formerly Biophan, LLC), and LTR Antisense Technology, Inc.	Incorporated by reference to Exhibit 2.3 to Biophan's Registration Statement on Form SB-2 (File No. 333-102526) (the "Prior Registration")
3.1	Articles of Incorporation (Nevada)	Incorporated by reference to Exhibit 3.1 to the 2000 10-KSB
3.2	Bylaws (Nevada)	Incorporated by reference to Exhibit 3.2 to Biophan's Form 10-SB filed on May 13,1999.
3.3	Amendment to the Articles of Incorporation	Incorporated by reference to Exhibit 3.1(i)to Biophan's Form 8-K, filed December 15, 2000.
3.4	Amendment to Exchange Agreement	Incorporated by reference to Exhibit 2 to Biophan's Form 10-KSB for the year ended February 28, 2001 and filed as an exhibit to Form SB-2a on May 1, 2003.
3.5	Certificate of Amendment to Articles of Incorporation	Incorporated by reference to Exhibit 3.1(i) to Biophan's Form 8-K on August 27, 2001.
4.1	Stock Purchase Warrant between Biophan and Biomed Solutions, LLC (formerly Biophan, LLC) dated for June 4, 2002	Incorporated by reference to Exhibit 4.1 to Biophan's Form 10-QSB the period ended May 31, 200

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

4.3	Stock Purchase Warrant between Biophan and Biomed Solutions, LLC dated November 11, 2002	Incorporated by reference to Exhibit 4.4 to Biophan's Form 10-QSB for the period ended November 30, 2002.
4.4	Form of Stock Purchase Warrant issued to principals of Carolina Financial Services, for a total of 121,572 shares	Incorporated by reference to Exhibit 4.5 to Biophan's Form 10-QSB for the period ended November 30, 2002.
4.5	Form of Stock Purchase Warrant issued to Carolina Financial services in connection with the Stock Purchase Agreement with Spectrum Advisors, Ltd	Incorporated by reference to Exhibit 4.6 to Biophan's Form 10-QSB for the period ended November 30, 2002
4.6	Form of Stock Purchase Warrant issued to investors in private placement of securities, for a total of 2,770,550 shares	Incorporated by reference to Exhibit 4.7 to Biophan's Form 10-QSB for the period ended November 30, 2002.
4.7	Registration Rights Agreement dated February 10, 2004 by and among Biophan Technologies, Inc., Biomed Solutions, LLC and SBI Brightline Consulting, LLC	Incorporated by reference to Exhibit 4.9 to Biophan's Registration Statement on Form SB-2 (File No. 333-112678) the 2004 Registration").
10.1	Payment Agreement dated June 3, 2004 between Biophan and TE Bio LLC	Incorporated by reference to Exhibit 99.1 to Form 8-K dated June 3, 2004.
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 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of C.F.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

(b) Reports on Form 8-K

The Company filed a Form 8-K dated June 3, 2004, reporting under Item 2, Acquisition or Disposition of Assets, that the Company executed final agreements for the acquisition of a 51% ownership interest in TE Bio LLC, a newly formed limited liability company that acquired an exclusive license to certain

technology from Biomed Solutions, LLC, a related company. On September 21, 2004, the Company filed a Form 8-K/A, reporting under Item 9.01, Financial Statements and Exhibits, the audited financial statements of TE Bio LLC and related pro forma financial information.

The Company filed a Form 8-K dated June 29, 2004, reporting under Item 9, Regulation FD Disclosure, that the Company's CEO, Michael L. Weiner, presented at the Strategic Research Institute's Medical Device Investor and Corporate Development Conference. A transcript of the presentation was attached as an Exhibit.

A Form 8-K dated July 13, 2004 was filed reporting under Item 9, Regulation FD Disclosure, that at the Annual Stockholders Meeting on July 13, 2004, it was announced that John Lanzafame, former President of STS Polymers, which was acquired by Angiotech Pharmaceuticals, is leading Biophan's efforts for the use of the Company's nanomagnetic particle coating technology for drug delivery applications. The Company also announced that Nanoset, LLC, its nanomagnetic particle technology partner, had filed several patents on the technology.

A Form 8-K dated August 19, 2004 was filed reporting under Item 7.01, Regulation FD Disclosure, that the Company held an Investor Conference Call hosted by CEO Michael Weiner. A transcript of the conference call was attached as an Exhibit.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant 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/ Robert J. Wood

Name: Robert J. Wood
Title: Chief Financial Officer

Date: October 6, 2004