BioElectronics Corp
Form SB-2/A
February 16, 2006

As filed with the Securities and Exchange Commission on February 16, 2006
Registration No. 333-131809

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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AMENDMENT NO. 1 TO
FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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BioElectronics Corporation
(Name of Small Business Issuer in Its Charter)

Maryland	**3845**	**52-2278149**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

401 Rosemont Avenue, 3rd Floor
Rosenstock Hall
Frederick, Maryland 21701
(301) 644-3906
(Address and Telephone Number of Principal Executive Offices)

Andrew J. Whelan, President
BioElectronics Corporation
401 Rosemont Avenue, 3rd Floor
Rosenstock Hall
Frederick, Maryland 21701
(301) 644-3906
(Name, address and telephone number of agent for service)

_____

Copies to:
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599 Lexington Avenue
New York, New York 10022-6030
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Approximate Date of Commencement of Proposed Sale to the Public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to

Rule 415 under the Securities Act, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, $.001 par value(2)	13,310,001 shares	$0.36	$4,791,600.36	$512.70
Common Stock, $.001 par value (3)	7,583,001 shares	$0.36	$2,729,880.36	$292.10
Common Stock, $.001 par value(4)	10,000,000 shares	$0.36	$3,600,000.00	$385.20
Total Registration Fee(5)	30,893,002 shares	_____	11,121,480.72	$1,190.00

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(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices on the Pink Sheets on February 13, 2006.

(2) The shares of common stock being registered hereunder are being registered for resale by certain selling stockholders named in the prospectus upon conversion of outstanding secured convertible notes. In accordance with Rule 416(a), the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(3) The shares of common stock being registered hereunder are being registered for resale by certain selling stockholders named in the prospectus upon exercise of outstanding five-year warrants. In accordance with Rule 416(a), the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(4) The shares of common stock being registered hereunder are being registered for sale of the shares of the Company's common stock in a best efforts, self-underwritten, offering directly to the public.

(5) Previously paid.

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration

statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Preliminary Prospectus

Subject to Completion, Dated February 16, 2006

30,893,002 Shares of Common Stock

Makers of Drug Free, Anti-Inflammatory Patches

This prospectus relates to the resale of up to 20,893,002 shares of common stock (the "Common Stock"), of which 3,000,000 shares are issuable upon the conversion of promissory notes of BioElectronics Corporation (the "Company") and the payment of the principal amount of, and interest on, these notes to, or the exercise of outstanding warrants by, certain selling stockholders and 7,583,001 shares of Common Stock are issuable upon the exercise of warrants of the Company by certain selling stockholders identified in this prospectus (the "Offering"). All of these shares, when sold, will be sold by these selling stockholders. The selling stockholders may sell their Common Stock from time to time at prevailing market prices. We will not receive any proceeds from the sale of the shares of Common Stock by the selling stockholders.

In addition to the Offering, this prospectus also relates to our direct offering (the "Direct Offering") of up to 10,000,000 shares of our Common Stock in a best efforts, self-underwritten, offering directly to the public. There is no minimum amount of shares that we must sell in our Direct Offering, and therefore no minimum amount of proceeds will be raised. While no plans are currently in place, in the future, we may sell these shares in our Direct Offering through broker/dealers and may pay a commission of up to 10% of the gross proceeds of the number of shares of our Common Stock sold by them in our Direct Offering. No arrangements have been made to place funds into escrow or any similar account. Upon receipt, offering proceeds from the Direct Offering will be deposited into our operating account and used to conduct our business and operations. Unless we use a broker/dealer, we will be offering the shares without any underwriting discounts or commissions. The purchase price is $.36 per share. If all of the shares offered by us are purchased, the gross proceeds we receive will be $3,600,000. The Direct Offering will terminate 12 months after this registration statement (the "Registration Statement") is declared effective by the Securities and Exchange Commission (the 'SEC"), unless all shares being registered for the Direct Offering on this prospectus are sold earlier than that date. However, we may extend the offering for up to one year following the twelve-month offering period. This is our initial public offering and no public market currently exists for shares of our Common Stock.

Our Common Stock is traded and prices are reported on the Pink Sheets under the symbol "BIEL. OTC:PK."

See "Risk Factors" beginning on page 8 for risks of an investment in the securities offered by this prospectus, which you should consider before you purchase any shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006

This prospectus is not an offer to sell any securities other than the shares of Common Stock offered hereby. This prospectus is not an offer to sell securities in any circumstances in which such an offer is unlawful.

We have not authorized anyone, including any salesperson or broker, to give oral or written information about this offering, the Company, or the shares of Common Stock offered hereby that is different from the information included in this prospectus. You should not assume that the information in this prospectus, or any supplement to this prospectus, is accurate at any date other than the date indicated on the cover page of this prospectus or any supplement to it.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this Prospectus and may not contain all of the information that you should consider before investing in the shares. You are urged to read this Prospectus in its entirety, including the information under "Risk Factors" and our consolidated financial statements and related notes included elsewhere in this Prospectus.

OUR COMPANY

The Company designs, develops, manufactures and markets a variety of proprietary, drug-free, anti-inflammatory patches for a broad range of medical indications. The Company's patch products, which are marketed under the trade name ActiPatch Therapy™ ("ActiPatch Therapy"), deliver pulsed electromagnetic field therapy, a clinically-proven and widely-accepted anti-inflammatory and pain relief therapy. Prior to the introduction of the Company's products, this therapy had only been offered through large office or hospital-based equipment. The Company believes pulsed electromagnetic energy therapy will increasingly be used as an alternative or adjunct to many wound care procedures or therapies because it relieves pain and swelling, shortens or halts the inflammatory phase, accelerates tissue healing, minimizes the appearance of scars and increases the strength of regenerated tissue. To date, the Company has focused its product development efforts on the plastic surgery and podiatry markets, and has established a new-product pipeline that includes products for the treatment of the following medical indications:

Repetitive Stress Injuries

- Heel Pain
- Carpal Tunnel
- Tennis Elbow
- Frozen Shoulder

Plastic and Cosmetic Surgery

- Breast Augmentation
- Blepharoplasty
- Rhinoplasty
- Facial Surgery
- Tummy Tucks
- Liposuction

Chronic Wounds

- Ischemic Ulcers
- Diabetic Ulcers
- Bed sores

Low Back Pain

- Sprains
- Strains
- Muscle spasms

Surgery

- General Surgical Proceedures
- Oral Surgery

Other Sprains and Strains

- Ankle

- Knee
- Wrist
- Neck

Pulsed electromagnetic energy therapy is a proven and robust technology platform. Physicians and therapists around the world have used pulsed electromagnetic therapy successfully for approximately 70 years to effectively treat soft tissue injuries from surgical incisions and accidental wounds, sprains, strains and other inflammatory responses. The prohibitive costs of the cabinet-sized pulsed electromagnetic machines that are currently available and used in the marketplace, coupled with the need for daily treatment administered by medical professionals, has restricted the widespread adoption of pulsed electromagnetic energy therapy. The Company believes its ActiPatch Therapy products, which deliver a dosage of pulsed electromagnetic energy in dermal patches as small as a standard band-aid, is superior to the therapy delivered by the much larger machines in use today.

The Company's products are designed to address the need for an effective, inexpensive therapeutic agent for the estimated $10 billion, 400 million-case-per annum worldwide soft tissue injury market. The Company believes its products offer the following competitive advantages:

- Easy to use
- Non-invasive relief of pain and swelling
- Drug-free and clinically proven
- Inexpensive, only a few dollars a day
- Therapeutically beneficial, unlike Transcutaneous Electrical Nerve Stimulators (TENS) units or painpatches, each of which only mask the pain.

The Company was incorporated under the laws of the State of Maryland on April 1, 2000. Since that date, the Company has, with only limited external funding, reached a number of key milestones, including the following:

- Received U.S. Food and Drug Administration (the "FDA") market clearance to sell its ActiPatch Therapy device for the treatment of edema (swelling) following blepharoplasty (eye surgery);
- Received ISO Certification and CE Mark (European Common Market) Certification for the ActiPatch Therapy device;
- Received Canadian approval to sell ActiPatch Therapy for the relief of pain and muscle skeletal complaints, without prescription. Initial Canadian reimbursement approvals are starting to come in;
- Executed key international and domestic sales and distribution agreements;
- Established an internal direct response sales and marketing operation;
- Executed an agreement with a major over-the-counter foot care manufacturer and distibutor to sell and market our retail foot care products;
- Initiated the adoption of its ActiPatch Therapy products by a number of professional sports teams;
- Established and maintained an intellectual property portfolio covering both the product design, medical use and the energy signal; and
- Established a 3-5 year pipeline of new products for the treatment of sports injuries, bone fractures, pain, chronic wounds, skin conditions and arthritis.

The Company's principal executive offices are located at 401 Rosemont Avenue, 3rd Floor, Rosenstock Hall, Frederick, Maryland 21701, and the Company's telephone number at that address is (301) 644-3906. The Company has a corporate internet website at http://www.bioelectronicscorp.com. The reference to this website address does not constitute incorporation by reference of the information contained therein.

About This Offering

This prospectus relates to the resale of up to 20,893,002 shares of Common Stock, of which 3,000,000 shares are issuable upon the conversion of promissory notes and the payment of the principal amount of, and interest on, these notes to, or the exercise of outstanding warrants by, certain selling stockholders identified in this prospectus and 7,583,001 shares are issuable upon the exercise of outstanding warrants of our Company by certain selling stockholders identified in this prospectus. All of the 20,893,002 shares, when sold, will be sold by these selling stockholders. The selling stockholders may sell their Common Stock from time to time at prevailing market prices. We will not receive any proceeds from the sale of the shares of Common Stock by the selling stockholders.

In addition to the Offering, this prospectus also relates to our Direct Offering of up to 10,000,000 shares of our Common Stock in a best efforts, self-underwritten, offering directly to the public. There is no minimum amount of shares that we must sell in our Direct Offering, and therefore no minimum amount of proceeds will be raised.

Common Stock Offered	30,893,002 shares
Common Stock Offered by the Selling Stockholders	20,893,002 shares. The 7,583,001 warrant shares included in such shares will be issued by the Company. Although the Company will not receive any of the proceeds from the sale of the shares, it will receive the proceeds from the exercise, if any, of the warrants included therein.
Common Stock Outstanding at December 31, 2005[(1)]	62,484,892 shares
Use of Proceeds of the Offering	We will not receive any of the proceeds from the sale of the shares by the Offering, except upon exercise of certain Common Stock purchase warrants.
Use of Proceeds of the Direct Offering	We will receive proceeds from the sale of the shares offered in the Direct Offering.
Pink Sheet Ticker Symbol	BIEL

(1) Does not include (i) 3,000,000 shares that are issuable upon the conversion of outstanding convertible notes with a conversion price of $0.25 per share, (ii) 835,000 restricted compensatory shares that have not been earned or issued and 165,000 shares which have been earned and not issued to certain of our corporate officers (iii) 8,683,001 shares issuable upon the exercise of outstanding warrants with exercise prices ranging from $.33 to $.50 per share, subject to adjustment, or (iv) 5,685,000 shares issuable upon the exercise of outstanding options with exercise prices ranging from $.30 to $.50 per share, subject to adjustment granted under our 2005 Equity Incentive Plan.

Selected Financial Information

The selected financial information presented below is derived from and should be read in conjunction with our consolidated financial statements, including notes thereto, appearing elsewhere in this prospectus. See "Financial Statements."

Summary Operating Information

	Fiscal Year Ended December 31,		Nine Months Ended September 30,	
	2003	**2004**	**2004**	**2005**
Net revenues	$ 30,497	$ 302,002	$ 300,112	$ 551,611
Loss from operations	$ 549,209	$ 771,127	$ 379,790	$ 785,556
Net loss	$ 568,087	$ 792,799	$ 388,195	$ 815,646
Net loss per common share	.02157	.017	.009	.015
Weighted average number of common shares Outstanding				
Basic	26,333,333	45,976,334	44,329,482	56,014,225
Diluted	N/A	N/A	N/A	N/A

Summary Balance Sheet Information

	September 30, 2005
Working capital	$ 86,965
Total assets	$ 704,876
Total liabilities	$ 789,265
Stockholders' deficiency	$ 84,389

RISK FACTORS

You should carefully consider the risks described below before investing in the Company. The risks and uncertainties described below are not the only risks we face. These risks are the ones we consider to be significant to your decision whether to invest in our Common Stock at this time. We might be wrong. There may be risks that you in particular view differently than we do, and there are other risks and uncertainties that are not presently known to us or that we currently deem immaterial, but that may in fact impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could be seriously harmed, the trading price of our Common Stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

Development Stage Company. The Company is a development stage company, and the Company faces risks and difficulties frequently encountered in connection with the operation and development of a new and expanding business. The Company has a limited operating history on which an evaluation of the Company and its business can be based. The likelihood of the Company's future success must be considered in light of such limited operating history, as well as the problems, expenses, difficulties, complications and delays frequently encountered in connection with a new business. There can be no assurance that the Company's future revenues will ever be significant or that the Company's operations will ever be profitable.

History of Operating Losses. The Company was incorporated on April 1, 2000. Through September 30, 2005, the Company recorded a cumulative operating loss of approximately $2.21 million. The Company expects to incur additional losses until sufficient sales of its ActiPatch Therapy products are achieved. The Company has not yet commenced manufacturing and shipping of any products in substantial volumes. The Company's limited operating history makes the prediction of future operating results difficult or impossible to make. There can be no assurance that the Company's future revenues will ever be significant or that the Company's operations will ever be profitable.

Need for Additional Financing. The Company's ability to satisfy its future capital requirements and implement its expansion plans will depend upon many factors, including the financial resources available to it, the expansion of the Company's sales and marketing efforts and the status of competition, if any. The Company believes that current and future available capital resources, including the net proceeds from sale of Company's products, will be sufficient to fund its operations at current levels for twelve (12) months. However, the exact amount of funds that the Company will require will depend upon many factors, and it is possible that the Company will require additional financing prior to such time. There can be no assurance that additional financing will be available to the Company on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to the existing stockholders will result. If adequate funds are not available, the Company may be required to delay, reduce or eliminate its programs or obtain funds through arrangements with partners or others that may require the Company to relinquish rights to certain of its products, technologies or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Limited Number of Products. Virtually all of the Company's sales have been derived from sales of the Company's existing ActiPatch Therapy dermal patches. Although additional products are currently being developed, there can be no assurance that these development efforts will be successful or, if successful, that resulting products will receive market acceptance, generate significant sales or result in gross profits. The Company believes that success in the general surgical market is somewhat dependent on product acceptance by plastic surgeons. The Company's future operating results, particularly in the near term, are significantly dependent upon market acceptance of its ActiPatch Therapy product line. Because virtually all of the Company's sales are derived from its ActiPatch Therapy product line, failure to achieve broader market acceptance of pulsed electromagnetic energy therapy as a result of competition, technological change or other factors or the failure to successfully market any new or enhanced versions of existing products would have a material adverse effect on the business, operating results and financial

condition of the Company.

Acceptance of Company's Products Depends Upon Results of Clinical Studies for New Applications. Clinical studies of new applications of the Company's ActiPatch Therapy products are in various stages of completion, and further clinical studies of the Company's products are expected to be conducted in the future. Clinical studies of the Company's products that result in unfavorable or inconclusive findings, or significant delays in completing clinical studies, could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the findings derived from ongoing clinical studies will be favorable or conclusive with regard to the Company's products or that the medical community will react positively to such findings as clinical studies are completed.

Risk of Technological Obsolescence. The medical device market is characterized by rapid, technological innovation and change. Many companies are engaged in research and development of devices, drugs and alternative methods to reduce swelling, relieve pain and enhance the healing of surgical incisions, accidental wounds, sprains, strains and chronic wounds. The Company's products could be rendered obsolete as a result of future innovations.

Competition. The medical device market is very competitive and competition is likely to increase. Increased competition may result in price cuts, reduced gross margins and loss of market share, any of which could seriously harm the Company's business. Many of the Company's competitors have, and potential competitors may possess, longer operating histories and significantly greater financial, technical, personnel and other resources than the Company. Competitors and potential competitors may also have larger, more established research and development departments and greater name and brand recognition than the Company possesses. These greater resources may permit them to implement extensive advertising, sales, promotions and programs that the Company may not be able to match. Better financed competitors may also have greater success in future research and development efforts. As these competitors enter the field, the Company's sales growth may fail to increase, despite its efforts to continue to design and manufacture superior products. There can be no assurance that the Company will have the ability to compete successfully in this environment. If the Company is unable to compete successfully, the Company's business will be seriously harmed.

Management of Growth. The Company may encounter significant strain and additional demands on its manufacturing systems, infrastructure and resources as it expands its business. The Company's ability to compete effectively and to manage future expansion will require it to continue to add to its infrastructure and management controls and to expand, train and manage its workforce. If the Company is unable to manage its expansion, the Company's level of service will decline, it may lose customers and its revenues and growth will be limited.

Dependence on Key Existing and Future Personnel. The Company's success will depend, to a large degree, upon the efforts and abilities of its officers and key management employees, including, without limitation, Andrew J. Whelan, the President and Chairman of the Board of Directors (the "Board") of the Company. The loss of the services of one or more of the Company's key employees could have a material adverse effect on its operations. The Company has employment agreements with certain of its employees, but does not maintain a key man life insurance policy on any employee. In addition, as its business plan is implemented, the Company will need to recruit and retain additional management and key employees in virtually all phases of its operations. Key employees will require not only a strong background in the medical device industry, but a familiarity with the markets in which the Company competes. The Company may not be able to attract successfully and retain key personnel.

Reliance on Third Parties for Supply and Manufacture of Products. Third parties manufacture all of the Company's products. The Company does not currently have manufacturing facilities or personnel to independently manufacture its products. If for any reason the Company is unable to obtain or retain third party manufacturers on commercially acceptable terms, it may not be able to distribute its products as planned. If the Company encounters delays or difficulties with contract manufacturers in producing or packaging its products, the distribution, marketing and subsequent sales of these products will be adversely affected. The Company may have to seek alternative sources of supply or abandon or sell product lines on unsatisfactory terms. The Company may not be able to enter into alternative supply arrangements on commercially acceptable terms, if at all. There can be no assurance that the manufacturers the Company has engaged will be able to provide sufficient quantities of these products or that the products supplied will meet the Company's specifications. In addition, production of the Company's products may require raw materials for which the sources and quantities are limited. An inability to obtain adequate supplies of raw materials could significantly delay development, regulatory approval and marketing of the Company's products.

Dependence on Third Party Distributors. The Company currently utilizes several third party medical device distributors to distribute its products. If for any reason the Company is unable to obtain or retain third party distributors on commercially acceptable terms, it may not be able to distribute its products as planned. If the Company encounters delays or difficulties with contract distributors, the distribution, marketing and subsequent sales of these products would be adversely affected, and the Company may have to seek alternative sources of distribution or abandon or sell product lines on unsatisfactory terms. The Company may not be able to enter into alternative distribution arrangements on commercially acceptable terms, if at all. There can be no assurance that the distributors the Company has engaged will be able to provide sufficient distribution of the Company's products in order for the Company to meet its current or future obligations to its customers.

Product Liability Claims. The Company faces an inherent business risk of exposure to product liability claims in the event that the use of its products are alleged to have resulted in adverse side effects, such as injury, illness or death. The Company also may be required to recall some of its products if they are damaged or mislabeled. Such events could result in product liability claims or adverse publicity. While the Company currently maintains product liability insurance, a significant product liability judgment against the Company or a widespread product recall, to the extent either such event is in excess of the limits of its product liability insurance, could substantially impair the Company's business, financial condition and results of operations.

Protection of Intellectual Property. The Company believes that its success depends to a significant degree upon its ability to develop proprietary technology and its ability to protect the proprietary aspects of its products. The Company acquired 44 patents that have now expired. Instead of filing for FDA regulatory delay patent extensions, the Company opted to file new patent applications to cover its technological improvements, affixing and delivery methods and medical treatments. The Company has approximately 150 new patent claims pending. We have filed in the United Sates, the European Common Market, Canada, and the other major markets such as Japan, South Korea, Mexico, Australia, etc.

The Company will continue to seek patent protection for its products. There can be no assurance that any patent that has been or may be issued will cover products the Company intends to sell, or if it does, will not subsequently be invalidated for any of a variety of reasons.

The Company relies upon a combination of laws and contractual restrictions, including restrictions contained in confidentiality agreements, to establish and protect its rights to any intellectual property that it creates. Any infringement of the Company's proprietary rights could result in significant litigation costs, and any failure to adequately protect its proprietary rights could result in the Company's competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite the Company's efforts to protect its proprietary rights, existing patent laws afford only limited protection. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Accordingly, the Company may not be able to prevent misappropriation of its technology or deter others from developing similar technology. Furthermore, policing the unauthorized use of the Company's products is difficult. Litigation may be necessary in the future to enforce the Company's intellectual property rights or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources and could significantly harm the Company's business.

Infringement of Third-Party Rights. In recent years, there has been significant litigation in the United States and elsewhere involving patents and other intellectual property rights. Third parties may assert patent, copyright, trademark and other intellectual property rights to technologies used in the Company's business. Any infringement claims, with or without merit, could be time consuming, result in costly litigation, and divert the efforts of the Company's technical and management personnel. If the Company is unsuccessful in defending itself against these types of claims, it may be required to do one or more of the following:

- stop selling those products that use or incorporate the challenged intellectual property;
- attempt to obtain a license to sell or use the relevant technology or substitute technology, which license may not be available on reasonable terms or at all; or
- redesign those products that use the relevant technology, which the Company may not be able to do on a timely or cost effective basis, or at all.

In the event a claim against the Company is successful and the Company can not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign its products to avoid infringement, the Company's business will be significantly harmed, which would have a material adverse effect on the Company's financial condition and results of operations.

Health Care Reform; Market Acceptance. The levels of revenues and profitability of pharmaceutical and medical device companies may be affected by the continuing efforts of governmental and third-party payers to contain or reduce the costs of health care through various means. In the United States there have been, and the Company expects that there will continue to be, a number of federal and state proposals to control health care costs. There have been a number of proposals introduced to Congress to comprehensively reform the nation's health care system. Some of the proposed legislation has contained measures intended to control public and private spending on health care as well as to provide universal public access to the health care system. In addition, some of the proposed legislation included limitations on Medicare and Medicaid reimbursement for medical products and services and called for the creation of a committee to monitor and evaluate the pricing of new medical products and services. Although no such legislation has been passed by Congress, federal, state and local officials and legislators (and certain foreign government officials and legislators) have proposed or are reportedly considering proposing a variety of additional reforms to the health care systems in their respective jurisdictions, including reforms that may affect the pharmaceutical and medical device industries. It is uncertain what new legislative proposals, if any, might be adopted or what actions federal, state or third-party payers may take in response to any health care reform proposals or legislation. The Company cannot predict the effect health care reforms may have on its business or the business of its collaborators.

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In the United States and elsewhere, sales of therapeutic products are dependent in part on the availability of reimbursement from third-party payers, such as government and private insurance plans. These third-party payers are increasingly challenging the prices charged for medical products and services. If the Company succeeds in bringing one or more products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement to the consumer will be available or will be sufficient to allow the Company to sell its products on a profitable basis.

There can be no assurance that any product developed by the Company will gain market acceptance among health care providers. Even if the Company's proposed products gain market acceptance, sales of such products may be dependent on the availability of reimbursement from third-party health care payers, such as government and private insurance plans. If adequate coverage and reimbursement levels are not authorized by government and third-party payers for use of the Company's products, market acceptance will be adversely affected.

Physicians and Patients Acceptance of Our Device. Physicians and patients may not accept and use our device. Acceptance and use of the device will depend upon a number of factors, including perceptions by members of the health care community, including physicians, about the safety and effectiveness of the device; cost-effectiveness of the device relative to competing products; availability of reimbursement for the products from government or other healthcare payers; and effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any. Because we expect sales of the current product device to generate substantially all of our product revenues for the foreseeable future, the failure of the device to find market acceptance would harm our business and could require us to seek additional financing.

Compliance with Regulatory Requirements. The Company is subject to a variety of regulatory agency requirements in the United States and foreign countries relating to the products that the Company develops and manufactures. The process of obtaining and maintaining required regulatory approvals and otherwise remaining in regulatory compliance can be lengthy, expensive and uncertain. The FDA inspects manufacturers of certain types of devices before providing a clearance to manufacture and sell such devices, and the failure to pass such an inspection could result in delay in moving ahead with a product or project. The Company is required to comply with the FDA's quality system regulation for the manufacture of medical products. In addition, in order for the devices that the Company designs or manufactures to be exported, and for the Company and its customers to be qualified to use the "CE" mark in the European Union, the Company maintains EN International Standards Organization ("ISO") 13485:2003 certification. This certification, like the quality system regulation, subjects the Company's operations to periodic surveillance audits. To ensure compliance with various regulatory and quality requirements, the Company expends significant time, resources and effort in the areas of training, production and quality assurance. If the Company fails to comply with regulatory or quality regulations or other FDA or applicable legal requirements, the governing agencies can issue warning letters, impose government sanctions and levy serious penalties. In addition, the continued sale of products manufactured by the Company may be halted or otherwise restricted. Any such actions could have an adverse effect on the willingness of customers and prospective customers to do business with the Company. In addition, any such noncompliance or increased cost of compliance could have a material adverse effect on the Company's business, results of operations and financial condition.

Product Revenues. Our ability to generate product revenues will be diminished if the devices sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement. Our ability to commercialize the devices, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from government and health administration authorities; private health maintenance organizations and health insurers; and other healthcare payors. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payors, including Medicare, routinely challenge the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for patches. Even if the new product candidates are approved by the FDA, insurance coverage may not be available, and reimbursement levels may be inadequate to cover such patches. If government and other healthcare payors do not provide adequate coverage and reimbursement levels for any of the products, the post-approval market acceptance of its products could be diminished.

Risks Relating to Our Common Stock

Disappointing quarterly revenue or operating results could cause the price of our Common Stock to fall.

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenue or operating results fall below the expectations of investors or security analysts, the price of our Common Stock could fall substantially. Our quarterly revenue and operating results may fluctuate as a result of a variety of factors, many of which are outside our control, including:

the amount and timing of expenditures relating to the rollout of our Actipatch Therapy products

our ability to obtain, and the timing of, additional regulatory approvals;

the rate at which we are able to attract customers within our target markets and our ability to retain these customers at sufficient aggregate revenue levels;

the availability of financing to continue our expansion;

technical difficulties in manufacturing the products or network downtime;

the introduction of new services, products or technologies by our competitors and resulting pressures on the pricing of our service.

We do not intend to pay dividends on our Common Stock in the foreseeable future, which could cause the market price of our Common Stock and the value of your investment to decline.

We expect to retain earnings, if any, to finance the expansion and development of our business. Our Board will decide whether to make future cash dividend payments. Such decision will depend on, among other things, the following factors:

our earnings;

our capital requirements;

our operating results and overall financial condition; and

our compliance with various financing covenants to which we are or may become a party.

The market for our Common Stock is thinly traded, which could result in fluctuations in the value of our Common Stock.

Although there is a public market for our Common Stock, the market for our Common Stock is thinly traded. The trading prices of our Common Stock could be subject to wide fluctuations in response to, among other events and factors, the following:

variations in our operating results;

sales of a large number of shares by our existing stockholders;

announcements by us or others;

developments affecting us or our competitors; and

extreme price and volume fluctuations in the stock market.

Our Common Stock price is likely to be highly volatile, which could cause the value of your investment to decline.

The market price of our Common Stock may be highly volatile. Investors may not be able to resell their shares of our Common Stock following periods of volatility because of the market's adverse reaction to volatility. We cannot assure you that our Common Stock will trade at the same levels of our stocks in our industry or that our industry stocks in general will sustain their current market prices. Factors that could cause such volatility may include, among other things:

actual or anticipated fluctuations in our quarterly operating results;

large purchases or sales of our Common Stock;

announcements of technological innovations;

changes in financial estimates by securities analysts;

investor perception of our business prospects;

conditions or trends in the medical device industry;

changes in the market valuations of other industry-related companies;

the acceptance of market makers and institutional investors of our business model and our Common Stock; andhanges in the market valuations of other industry-related companies;

worldwide economic and financial conditions.

The Company's Principal Shareholders Own a Majority of the Shares Outstanding and May Control the Company. Andrew J. Whelan, the President and Chairman of the Board of the Company, owns, directly or indirectly, approximately 49.5% of the outstanding shares of Common Stock. Through his ownership of securities, Mr. Whelan will be able to substantially impact any vote of the stockholders and exert considerable influence over the Company's affairs.

No Assurance of Liquidity. There is currently only a limited public market for the Company's Common Stock and there can be no assurance that a trading market will develop further or be maintained in the future. One exemption that may be available is Rule 144 adopted under the Securities Act of 1933 (the "Securities Act"), provided the Company meets the requirements of Rule 144 for available public information. Generally, under Rule 144, any person holding restricted securities for at least one (1) year may publicly sell in ordinary brokerage transactions, within a three (3) month period, the greater of one percent (1%) of the total number of shares of the Company's Common Stock outstanding or the average weekly reported volume during the four (4) weeks preceding the sale, if certain conditions of Rule 144 are satisfied by the Company and the seller. Furthermore, with respect to sellers who are "non-affiliates" of the Company, as that term is defined in Rule 144 of the Securities Act, the volume sale limitation does not apply, and an unlimited number of shares may be sold, provided the seller meets certain other conditions enumerated in Rule 144(k), including a holding period of two (2) years. Sales under Rule 144 may have a depressive effect on the market price of the Company's securities and thereby impair the Company's ability to raise capital through the sale of its equity securities.

Investor Warrants and Convertible Notes May Adversely Affect Shareholders and the Company in the Future. The holders of the 3,520,000 investor warrants (the "Investor Warrants") sold in the Private Placement in April 2005 have three (3) years after the final closing to exercise their Investor Warrants, and the holders of the 513,000 agent's warrants (the "Agent's Warrants") issued in connection with the Offering will have two (2) years or five (5) years, depending upon the type of Agent's Warrant. In December 2005, the Company issued senior secured convertible 24 month term notes in the aggregate amount of $750,000 to LH Financial ("the Notes"). The Notes have an 8% coupon, payable on a monthly basis. The Notes issued are convertible notes at the option of LH Financial, at a fixed price of $0.25. For every share of the Company's Common Stock for which the Notes are converted, LH Financial will receive one warrant, exercisable within a five-year period from the conversion of the Notes. The exercise of the Investor Warrants or the Agent's Warrants may cause dilution in the interests of other shareholders. Further, the terms on which the Company may obtain additional financing during the period any of such warrants remain outstanding may be adversely affected by the existence of these warrants. The holders of the Investor Warrants, the Notes, or the Agent's Warrants may exercise their warrants at a time when the Company may wish to obtain additional capital through a new offering of shares on terms more favorable.

We do not have an underwriter for our Offering, which may make it more difficult to successfully complete this Offering. We are offering 10,000,000 shares of Common Stock on a direct placement basis under the provisions of Rule 3a4-1 of the Exchange Act. We have never engaged in the public sale of our securities, and have no experience in conducting public securities offerings. Accordingly, there is no prior experience from which investors may judge our ability to consummate this offering. There can be no assurance that we will be successful in selling any shares of common stock offered hereby, and as a result, we may not receive any proceeds from our Direct Offering.

Because there is no minimum number of shares that must be sold in our Direct Offering we may not raise sufficient proceeds to commence significant operations. Under the terms of our Direct Offering, there is no minimum number of shares that must be sold, or a minimum amount that will be raised, and we will not refund any funds to you. Upon receipt, offering proceeds will be deposited into our operating account and used to conduct the business affairs of the Company. Because there is no minimum number of shares that must be sold or a minimum amount that will be raised, and because we will not refund any funds to you, it is possible that we may not raise enough funds to sustain operations. If we are unable to receive sufficient funds from our Direct Offering, we may have to seek other sources of financing. There is no assurance that additional sources of funding will be available at a reasonable cost. In the event that we are unsuccessful in raising sufficient funds in this or any other offerings to continue our operations, it is likely that purchasers of our Common Stock will own shares in a company that has an illiquid smaller market for its shares or will lose their investments.

"Penny Stock" Rule Limitations. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exemptions. Such exemptions include an equity security listed on a national securities exchange or quoted on NASDAQ and an equity security issued by an issuer that has net tangible assets of at least $2,000,000, if such issuer has been in continuous operation for more than three (3) years. Unless such an exemption is available, the regulations require the delivery of a disclosure document to the investor explaining the penny stock market and the risks associated therewith prior to any transaction involving a penny stock. In addition, as long as the common stock is not listed on a national securities exchange or quoted on NASDAQ or at any time that the company has less that $2,000,000 in net tangible assets, trading in the common stock is covered by Rule 15g-9 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for non-NASDAQ and non-exchange listed securities. Under that rule, broker-dealers who recommend such securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. Securities are exempt from this rule if the market price is at least $5.00 per share. To the extent that the Company does not meet the exemptions under the Penny Stock Rule, there will be reduced liquidity in the market.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and elsewhere in this prospectus constitute forward-looking statements. These statements involve risks known to us, significant uncertainties, and other factors which may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by those forward-looking statements.

You can identify forward-looking statements by the use of the words "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "proposed," or "continue" or the negative of those ter statements are only predictions. In evaluating these statements, you should specifically consider various factors, including the risks outlined above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of our Common Stock by the selling stockholders.

The net proceeds available to us from the sale of the shares in the Direct Offering are estimated to be approximately $3,200,000 if the maximum offering is sold, after deducting offering expenses (estimated to be $400,000). We intend to use the net proceeds provided by the Direct Offering for sales and marketing, working capital and general corporate purposes.

We will also receive proceeds of up to a maximum of $57,430.00 upon the due exercise, if any, of the two-year warrants granted by us exercisable for an aggregate of 171,000 shares of Common Stock. We will receive proceeds up to a maximum of $1,635,001 upon the due exercise, if any, of the three-year warrants granted by us exercisable for an aggregate of 3,770,001 shares of Common Stock. We will receive proceeds of up to a maximum of $1,681,200.00 upon the due exercise, if any, of the five-year warrants granted by us exercisable for an aggregate of 3,642,000 shares of Common Stock. We expect to incur expenses in connection with this Offering of approximately $50,000 for our legal fees, accounting fees, printing, Blue Sky legal and filing fees and other miscellaneous expenses. We intend to use any such proceeds for sales and marketing, working capital and general corporate purposes. Until utilized, the net proceeds of this Offering will be invested in interest-bearing accounts, or invested in short-term U.S. government obligations, certificates of deposit or similar short-term, lower risk investments.

The Company currently anticipates applying the proceeds approximately as follows:

Application of Proceeds	Approximate Dollar Amount	Approximate Percentage of Net Proceeds
Sales and Marketing	$ 4,000,000	60.9%
Working capital and general corporate purposes	$ 2,572,631	39.1%
Total	$ 7,087,431	100%

Further, to the extent that any of our outstanding convertible promissory notes are converted into, or paid in the form of, shares of our Common Stock, we will be relieved of such obligations to the extent of such conversion or payment. We will receive $1,591,200.00 upon the exercise, if any, of the five year warrants granted with the convertible promissory note for an aggregate of 3,400,000 shares.

DILUTION

The Company had a net tangible book value of $(117,181) or $.002 per share, as of September 30 2005, based upon 62,484,892 shares of Common Stock outstanding. Net tangible book value per share is equal to the Company’s total tangible assets less its total liabilities, divided by the total number of shares of its Common Stock outstanding. After giving effect to the sale of the 10,000,000 shares of Common Stock offered hereby at an initial public offering price of $.36 per share and the application of the net proceeds therefrom (after deducting estimated expenses of the Offering), the net tangible book value of the Common Stock as of September 30, 2005 would have been $3,082,819 or $.052 per share. Dilution is determined by subtracting net tangible book value per share after this Offering from the amount paid by new investors per share of Common Stock.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market for Common Stock

Our Common Stock is traded on the Pink Sheets under the symbol “BIEL. OTC:PK.”

The following table contains information about the range of high and low bid prices for our Common Stock for each full quarterly period from Q2 2004 through Q4 2005, based upon reports of transactions on the OTC Pinksheets.

Fiscal 2004	**Low**	**High**
Second Quarter (commencing April 12)	$ 0.17	$ 1.05
Third Quarter	$ 0.28	$ 0.50
Fourth Quarter	$ 0.31	$ 0.47
Fiscal 2005		
First Quarter	$ 0.30	$ 0.60
Second Quarter	$ 0.28	$ 0.55
Third Quarter	$ 0.35	$ 0.41
Fourth Quarter	$ 0.23	$ 0.52

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions. The high and low prices listed have been rounded up to the next highest two decimal places.

The market price of our Common Stock is subject to significant fluctuations in response to variations in our quarterly operating results, general trends in the market for the products we distribute, and other factors, over many of which we have little or no control. In addition, board market fluctuations, as well as general economic, business and political conditions, may adversely affect the market for our Common Stock, regardless of our actual or projected performance. On February 8, 2006, the closing bid price of our Common Stock as reported by the Pink Sheets was $0.35 per share.

Holders

As of January 31, 2006, there were 202 holders of record of our Common Stock.

Dividend Policy

We have never declared dividends or paid cash dividends on our Common Stock. We intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included elsewhere in this prospectus. This discussion includes forward-looking statements that involve risks and uncertainties. Operating results are not necessarily indicative of results that may occur in future periods. When used in this discussion, the words “believes”, “anticipates”, “expects” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected.

Our business and results of operations are affected by a wide variety of factors, including those we discuss under the caption “Risk Factors” and elsewhere in this prospectus, that could materially and adversely affect us and our actual results. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price.

Any forward-looking statements herein speak only as of the date hereof. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Business Outlook

Our financial condition improved in December 2005, when we sold LH Financial a fixed rate senior secured convertible 24 month term note. A note for $750,000 was issued and such promissory note bears interest at 8% with monthly payments starting on the 6 (six) month anniversary in cash or at the option of the Company. On the 9 (nine) month anniversary of the closing, the Company shall be required to make principal repayments.

Mentor Corporation distributes the Company’s products to the plastic surgery market. It is anticipated that they will begin international sales distribution in 2006, and will also accelerate their domesticate sales and distribution with a focused direct response sales and marketing campaign.

We have a distribution agreement with MaxMed, Inc. (“MaxMed”) to embed ActiPatch Therapy into their custom foot orthotic devices and to sell monthly replacement devices.

ActiPatch Therapy has been approved for sale in Canada for the relief of pain in muscosketal complaints. We have a retail foot care distribution agreement with Profoot, Inc. (“Profoot”) to resell ActiPatch Therapy in Canada under the Profoot brand name. ProFoot anticipates that they will have the product on the shelves in Canada in the 2nd quarter of 2006. Profoot sells and distributes in 47 countries, including the United States. International sales will be expanded predicated on Canadian sales results. United States retail distribution is predicated on obtaining a specific heal pain market clearance from the United States FDA.

We have initiated several orthopedic clinical studies to expand our United States market presence. The studies will be used for additional United States FDA market clearances and for marketing.

In 2005, we completed a 10 store market test with Dr. Scholl’s Foot Care Centers (“Dr. Scholl’s”) in the United Kingdom. Dr. Scholl’s has given its approval to expand product distribution to all 50 stores.

We have started shipping our new Slim Line products to the plastic surgery market. They are significantly lighter, more flexible and durable than the Company’s earlier product models. The improved design also reduces, in certain applications, the number of units required, provides intuitive use guidance, improves patient compliance and lowers the cost of care.

The Slim Line products flexibility, durability, and lower cost of manufacturing has opened several significant marketing opportunities to embed ActiPatch Therapy into chronic wound dressings, night splints, walkers, ankle braces and other orthopedic devices. We are actively discussing such applications with the market leaders in each market segment.

In the last half of 2005, we initiated a direct response sales and marketing program from our Westlake Villages, California offices. Initial sales indicate that direct response marketing with follow on telemarketing is an effective sales method for solo practice medical specialties such as podiatry, chiropractic, and oral surgery.

Results of Operations

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Our revenues for the nine months of 2005 increased by $251,499, or approximately 84% to $551,611 as compared to $300,112 reported in the first nine months of fiscal 2004. The growth in revenues was from the sales of units to MaxMed that are to be embedded into their custom foot orthotics. MaxMed's embedding of our drug free, anti-inflammatory patch into their custom foot orthotic has generated significant physician interest in our products.

Our gross margin for the first nine months of 2005 increased by $243,184 or 120% to $444,402 as compared to $201,218 for the first nine months of 2004. The increase in dollar amount of gross revenue reflects the increase in sales and the increased profit margin on the bulk sale of product to MaxMed.

General and Administrative expenses increased by $176,607 to $648,785 as compared to $472,178 for the nine months of 2004. The increase reflects the addition of a Chief Operating Officer and administrative staff.

Selling Expense increased by $409,087 to $517,917 from $108,830 in 2004 as a result of the formation of the orthopedic group and the sales and marketing operation in Westlake Village, California.

The Net Loss increased $427,451 to $815,646 in the first nine months of 2005 from $388,195 reported in the first nine months of 2004. The increased lost was the result of the start up expense of the Orthopedic Sales Group, new product design and manufacturing improvements implemented.

Fiscal Year 2004 Compared to Fiscal Year 2003

Sales for fiscal year ended December 31, 2004 increased by $271,505 or 890% to $302,002 as compared to $30,497 reported in 2003. The growth in revenues was due to the establishment of a distribution relationship with Mentor Corp for the world wide plastic surgery market and other sales.

Cost of Goods Sold for the Year Ending December 31, 2004 was $112,724 as compared to the $50,565 reported for fiscal 2003. The Cost of Goods Sold expense for 2003 consisted of tooling and other start up materials that were expensed.

Operating expenses increased from $529,141 for the year ended December 31, 2003 to $960,405 for the year ended December 31, 2004. Travel, professional services, and selling expenses account for the majority of this increase. During this time, the Company engaged an international and domestic sales consultant and an operation's consultant.

Selling expenses for the year ending December 31, 2003 were $64,916 consisting virtually entirely of travel expenses. Expenses for the year ending December 31, 2004 were $265,347 and were incurred in the training and sales suport for Mentor Corp. sales representatives and other domestic and international distribution channels.

General and administrative expenses for the year ended December 31, 2004 were $695,058 compared to $464,225 during 2003. The increase resulted from the engagement of operations management and increased travel expenses.

Losses from operations increased from $549,209 during 2003 to $771,127 during 2004. Losses were minimized due to the significant increase in sales revenues.

Interest expense on shareholder leans and equipment lease increased from $8,399 during 2003 to $19,920. The increase can be contributed to the accrued interest on stockholder loans made during the latter half of 2003.

Net losses increased from $568,087 during 2003 to $792,799 during 2004. Losses were minimized due to the significant increase in sales.

Liquidity and Capital Resources

At December 31, 2004 we had cash and cash equivalents of $50,709 and negative working capital of $546,816 as compared to cash and cash equivalents of $595 and negative working capital of $179,157 at December 31, 2003. The 2004 negative working capital was comprised of bridge and shareholder loans of $642,000. The bridge loans were repaid in 2005 and the shareholder loans were converted to equity subsequent to September 30, 2005.

Net cash used in operating activities aggregated $771,136 in fiscal year 2004 and 2003, respectively. The principal use of cash from operating activities in fiscal 2004 was the increase in inventory of $50,115, and an increase in accounts receivable of $8,786. These were offset by an increase in accounts payable and other accrued liabilities of $56,897. Non-cash reconciling items include a $14,615 provision for bad debts and depreciation expense of $8,818.

The Company purchased $53,045 in equipment in 2004 and $5,238 in fiscal 2003. The Company's capital equipment requirements are minimal. Most of the Company's manufacturing is subcontracted or manufactured by others to the Company's specifications. The principle purchase of machinery and equipment was $40,039 was used to purchase a used encapsulating machine from Frain Industries. The principal use of cash in 2003 was the purchase of laboratory testing equipment.

Net cash provided by financing activities aggregated $874,295 in fiscal year 2004 and 2003, respectively. During 2003, the source of cash provided by financing activities can be attributed to the issuance of capital stock, $169,750 and the proceeds from related party notes payable $224,200. During fiscal 2004, notes payable proceeds totaled $370,000 and the issuance of capital stock resulted in proceeds of $491,482. The 2004 notes payable consisted of a $300,000 bridge loan that was repaid in 2005 and $70,000 in shareholder loans that were converted to equity in 2005.

Our operating losses and development expenses have been funded though the issuance of equity securities and shareholder loan borrowings.

BUSINESS

General

The Company designs, develops, manufactures and markets a variety of proprietary, drug-free, anti-inflammatory patches for a broad range of medical indications. The Company's patch products, which are marketed under the trade name ActiPatch Therapy, deliver pulsed electromagnetic field therapy, a clinically-proven and widely-accepted anti-inflammatory and pain relief therapy. Prior to the introduction of the Company's products, this therapy had only been offered through large office or hospital-based equipment. The Company believes pulsed electromagnetic energy therapy will increasingly be used as an alternative or adjunct to many wound care therapies because it relieves pain and swelling, shortens or halts the inflammatory phase, accelerates tissue healing, minimizes the appearance of scars and increases the strength of regenerated tissue. To date, the Company has focused its product development efforts on the plastic surgery and podiatry markets, and has established a new-product pipeline that includes products for the treatment of the following medical indications:

Repetitive Stress Injuries
- Heel Pain
- Carpal Tunnel
- Tennis Elbow
- Frozen Shoulder

Plastic and Cosmetic Surgery
- Breast Augmentation
- Blepharoplasty
- Rhinoplasty
- Facial Surgery
- Tummy Tucks
- Liposuction

Chronic Wounds
- Ischemic Ulcers
- Diabetic Ulcers
- Bed sores

Surgery
- General Surgical Procedures
- Oral Surgery

Low Back Pain
- Sprains
- Strains
- Muscle spasms

Other Sprains and Strains
- Ankle
- Knee
- Wrist

Pulsed electromagnetic energy therapy is a proven and robust technology platform. Physicians and therapists around the world have used pulsed electromagnetic therapy successfully for approximately 70 years to effectively treat soft

tissue injuries from surgical incisions and accidental wounds, sprains, strains and other inflammatory responses. The prohibitive costs of the cabinet-sized pulsed electromagnetic machines that are currently available and used in the marketplace, coupled with the need for daily treatment administered by medical professionals, have restricted widespread adoption of pulsed electromagnetic energy therapy. The Company believes its ActiPatch Therapy products, which deliver a dosage of pulsed electromagnetic energy in dermal patches as small as 2.5 cm X 4.0 cm, is superior to the therapy delivered by the much larger machines in use today.

The Company's products are designed to meet the market demand for an effective, inexpensive therapeutic agent for the estimated $10 billion, 400 million-case-per annum soft tissue injury market. The Company believes its products offer the following competitive advantages:

- Easy to use
- Noninvasive relief of pain and swelling
- Drug-free and clinically proven
- Inexpensive, only a few dollars a day
- Therapeutically beneficial

The Company was incorporated under the laws of the State of Maryland on April 1, 2000. Since that date, the Company has, with only limited external funding, reached a number of key milestones, including the following:

- Received U.S. Food and Drug Administration (the "FDA") market clearance to sell its ActiPatch Therapy device for the treatment of edema (swelling) following blepharoplasty (eye surgery);
- Received ISO Certification and CE Mark (European Common Market) Certification for the ActiPatch Therapy device;
- Received Canadian approval to sell ActiPatch Therapy for the relief of pain and muscle skeletal complaints, without prescription.
  Initial Canadian reimbursement approvals are starting to come in;
  - Executed key international and domestic sales and distribution agreements;
  - Established an internal direct response sales and marketing operation;
- Executed an agreement with a major over-the-counter foot care manufacturer and distributor to sell and market our retail foot care products;
  - Initiated the adoption of its ActiPatch Therapy products by a number of professional sports teams;
- Established and maintained an intellectual property portfolio covering both the product design, medical use and the energy signal; and
- Established a 3-5 year pipeline of new products for the treatment of sports injuries, bone fractures, pain, chronic wounds, skin conditions and arthritis.

Strategy

The Company’s long-term business strategy is to become a leader in accelerated wound and soft tissue injury healing products used in a wide variety of medical and surgical specialties and procedures. The following are key elements of the Company’s business strategy:

- *Broaden ActiPatch Therapy Product Line and Target Specific Product Applications*. The Company will continue to expand its ActiPatch Therapy product line by leveraging its proprietary pulsed electromagnetic energy therapy technologies to create new and unique product configurations for specific medical and surgical procedures in which soft tissue injuries must be treated or repaired. The Company believes, by developing products to address specific medical applications, its sales and marketing processes will be simplified, the levels of efficacy of its products will be increased and the Company will be able to include with its product packaging more specific directions for usage and, if required, an explicit affixing accessory.

- *Emphasize Clinical Advantage*. The Company will focus on developing products that enable medical or surgical procedures to be more clinically effective by reducing patient risk and accelerating tissue healing.

- *Develop Physician Relationships*. The Company’s marketing and sales strategy emphasizes the establishment of strong working relationships with physicians, surgeons and other medical personnel in order to assess and satisfy their needs for products and services. The Company intends to sponsor both domestic and international training sessions to educate physicians and surgeons in the use of the Company’s products. The Company expects that as these relationships develop and as use of the Company’s ActiPatch Therapy products becomes more widespread, surgeons will develop additional uses for the products. The Company is also thinking of developing relationships with one or more distributors to increase sales of the ActiPatch Therapy products.

- *Reduce Product Costs*. The Company will seek to design and develop cost competitive products that have significant clinical advantages. In addition, the Company will continue to improve its manufacturing processes to achieve decreases in per-unit product cost while maintaining the highest level of quality assurance and physician satisfaction.

- *Increase International Market Presence*. The Company intends to expand and strengthen its distribution network to increase its international physician training and marketing activities and to promote the acceptance of the Company's core technologies and products in markets outside the United States. Initially, the Company will seek to accelerate its expansion into the European retail market as funding and new products become available.

- *Direct Consumer Marketing.* The Company intends to increase acceptance and demand for its ActiPatch Therapy products in the United States by seeking increased physician product acceptance and simplifying its product offerings through the development of disease-specific applications as discussed above, seeking product sponsorship or endorsements by leading professional sports teams and organizations, and through focused advertising to launch its U.S. retail operations.

Products

The Company's ActiPatch Therapy products are convenient and portable, and provide a full course of anti-inflammatory therapy for generally less than $50.00. The ActiPatch Therapy products combine a miniaturized microchip, power source and antenna in a soft, flexible outer envelope. When applied to the body, these devices deliver a pulsed radio frequency signal into the body on a 27 MHz frequency wave that induces a low frequency electromagnetic field to damaged cell tissue. The pulsating action increases fluid flow to the damaged cells and helps to restore the cell's normal resting potential (-70mV), thereby minimizing the production of chemical pain signals and inflammatory agents and reducing swelling and its consequent pain. Optimum therapy is achieved by flexing the antenna in the device so that the device conforms to the contour of the injured tissue and directs the energy directly into the damaged cells. The ActiPatch Therapy products are designed to:

- Provide portable, disposable and noninvasive relief of pain and swelling;
- Shorten or halt the inflammatory phase of an injury;
- Reduce edema (swelling) and pain;
- Restore cell-to-cell communication and thus accelerate tissue healing;
- Minimize the appearance of scars;
- Increase the strength of the regenerated tissue; and
- Improve lymphatic flow, thus resulting in the reduction of bruising and the improvement of the wound.

The Company believes its ActiPatch Therapy products are well positioned to address the need for an effective, low-cost, therapeutic agent that reduces pain, swelling and recovery time in the more than 200 million soft tissue injuries (including surgical incisions, dental incisions, sprains and strains) in the United States each year, and the numerous other soft tissue injuries annually worldwide. Based upon various market studies, the Company estimates that the market for products to treat such injuries exceeds $5 billion domestically and $10 billion worldwide.

The Company has developed, or is designing and/or developing, a full line of bioelectrical products based upon the core electromagnetic technology contained in its existing ActiPatch Therapy products. There are a substantial number of clinically-proven pulsed electromagnetic energy medical applications that address specific diseases that the Company believes can be miniaturized and optimized by modifying the following features of the ActiPatch Therapy device: (a) size, shape, weight and color of the housing, (b) basic shape of the antenna, (c) the area and depth of therapeutic coverage of the products, (d) treatment duration, (e) method of product attachment to the patient (i.e. tape, wraps, pads, neoprene braces, adhesives, etc.) and (g) price. New product development and improvements will focus on product costs and effective marketing and distribution strategies.

Technological and Clinical Evidence of Effectiveness

It is now widely accepted in the fields of orthopedics, sports and physical medicine, plastic surgery and chronic wound care, that pulsed electromagnetic therapy exerts a wide range of beneficial effects. More recently, with the development of inexpensive, self-administered micro technology, other branches of medicine have begun to recognize and utilize the curative benefits of radio-frequency therapy. More than 500,000 patients with chronically un-united fractures have benefited from this surgically non-invasive method without risk, discomfort or the high costs of operative repair. Many of the athermal bio-responses, at the cellular and sub-cellular levels, have been identified and found appropriate to correct or modify the pathologic processes for which pulsed electromagnetic therapy is being used.

When the body receives an injury during surgery, or from trauma such as a sprain, the danger of infection is minimal. Nevertheless, the body will respond to the injury to prevent an infection by swelling, which separates the cells to prevent the transmission of infection. This response is known as the “inflammatory process” and consists of a rapid onset tissue destruction phase, followed by a longer duration tissue repair phase. The initial destruction phase is evidenced by redness, heat, swelling and pain in the tissue. To enhance the healing of non-infected injuries, the therapeutic goal of the ActiPatch Therapy products is to induce the tissue to rapidly pass through, or by-pass, the tissue-damaging phase of the inflammatory process and move to the tissue repair mode.

Sales and Marketing Strategy

The Company believes its products represent a technical breakthrough at market disruptive prices. Existing ActiPatch Therapy products generally costs less than $50, compared to costs that often exceed $3,000 for other treatment alternatives. Given the diversity and size of the market opportunity, and the relatively high level of customer interaction that is typically required in the initial sales efforts to describe the benefits and proven success of pulsed electromagnetic energy therapy, management believes it is beneficial to use established, well-positioned sales organizations to sell its products. The Company currently sells and markets its products primarily through third-party distributors. The Company believes it will be able to expand its direct sales and marketing efforts, which it will seek to coordinate with the efforts of its third-party distributors. The key markets that the Company has identified for its ActiPatch Therapy products are:

- Physicians’ specialties, including plastic surgery centers, orthopedics, general surgery and other surgeons, podiatrists, chiropractor clinics and oral surgeons;
- Hospitals;
- Extended care facilities (including nursing homes and rehabilitation centers); and
- Home health care providers.

Marketing to Resellers. The Company also solicits specialty medical device and pharmaceutical manufacturers to market and sell its ActiPatch Therapy products. The Company believes manufacturers with existing medical specialty product lines, and a trained sales force looking for new products, are ideal distributors. In addition to providing credibility, rapid customer access and a low-cost sales force, existing manufacturers have the potential to provide swift dominance in their market segments and cross market fertilization. The Company anticipates that the general and other surgery markets will develop as plastic surgeons increase their use of its ActiPatch Therapy products and expose these products to the surgeons and other medical practitioners with whom they work.

In the second quarter of 2004, the Company entered into a three-year supply and distribution agreement with Byron Medical, Inc. ("Byron Medical"), a subsidiary of Mentor Corporation, pursuant to which Byron Medical has agreed to market and sell on an exclusive basis, the Company's ActiPatch Therapy products worldwide, through its sales representatives, to plastic surgeons. Mentor Corporation is a $600 million medical device company that includes among its customers the leading suppliers of medical products and technology to plastic surgeons.

The Company trains and supports the sales representatives and international agents of its distributors, including Byron Medical, in order to maximize market penetration. The Company plans to design motivational incentives to assist account managers in their efforts to maintain field attention, heighten enthusiasm among representatives and agents regarding the success of the product, and insure continued focus on the presentation and distribution of the Company's products.

Marketing Directly to Physicians' Offices. The Company plans to directly solicit targeted physicians and other medical care providers by mail and to combine direct response marketing with print advertising and active participation at medical shows and conferences. The impact of these concurrent and consecutive promotional thrusts will be managed and absorbed through a comprehensive Customer Relationship Management (CRM) telemarketing strategy designed to yield the maximum return from the advertising and promotional market blitz. The Company is negotiating with several pharmaceutical direct marketing organizations to assist it in establishing these marketing efforts.

As part of its efforts to directly market its ActiPatch Therapy products to physicians and other medical care providers, the Company plans to sell "Evaluation Orders" consisting of six units and two or three free units for testing, in lieu of excessive and expensive sampling.

Marketing to Hospitals. Management believes the hospital market represents the broadest and deepest long-term potential source of revenue for the Company's ActiPatch Therapy products. The Company believes the therapeutic properties intrinsic to an ActiPatch Therapy device have application across multiple clinical departments throughout all acute care institutions. The Company also believes the ability to accelerate healing through the repair of damaged cells will be an invaluable asset within the surgical suite because it will reduce pain and the incidence of post-operative infections, minimize scarring and permit a safe, early discharge of surgical patients. In addition, the financial implications of the adoption of ActiPatch Therapy within the operating room could have ramifications on the escalating costs associated with surgery. The Company also anticipates that its ActiPatch Therapy products will have extensive application within the emergency room and other institutional departments as a remedy for sprains, strains, fractures and lacerations. The Company believes its ActiPatch Therapy products for acute care as well as its planned new advanced wound care products, will have universal appeal throughout the hospital environment, due to their ability to combat the endemic and costly problem of pressure sores.

Marketing to Extended Care Customers. Nursing homes and home health care providers are separate markets that will ultimately require distinct channels for the distribution of the Company's ActiPatch Therapy products. However, they share common tissue management characteristics that, for strategic planning, align them for analysis, specific tactics and coordinated implementation.

For example, bedsores or pressure ulcers develop on patients who, due to illness or immobility, require prolonged bed or wheelchair restriction. The prevalence of the decubitus ulcer problem, along with its associated costs, is an ongoing dilemma in both nursing homes and home health care that has not been solved by an inexpensive and effective therapy.

The nursing home market in the United States is comprised of approximately 17,000 separate facilities. However, approximately 13% of those facilities are hospital-based and approximately 52% of those facilities are owned and operated by nursing home chains. It is the Company's intention to market its products directly to nursing homes. The Company anticipates that the adoption and use of its products by the large nursing home chains and hospital-based nursing homes will create an increased awareness of, and demand for, its products throughout the independently owned nursing homes.

The Company plans to channel the distribution of its ActiPatch Therapy products in the home health care segment through a regional network of dealers and distributors in order to directly supply the user patient. The Company has not yet entered into any agreements with respect to the distribution of its products to the home health care segment.

International Marketing. On September 29, 2004, TUV Rheinland, N.A., a recognized regulatory body for ISO Certification, notified the Company that it had successfully completed a compliance audit for ISO 13485 Medical Devices, and that the CE Mark for the ActiPatch Therapy device has been recommended for approval. The Company subsequently received the approval and began shipping ActiPatch Therapy products to Byron Medical Inc.'s international distributors. The Company believes the European Union is an open market for the Company's innovative use of electromagnetic therapy due in part to Europe's classification of the device and familiarity and extensive use of the traditional electromagnetic therapy apparatus.

The Company has also received regulatory approval under the Canadian Medical Devices Conformity Assessment System to sell its ActiPatch Therapy device in Canada.

Manufacturing Process

The Company's ActiPatch Therapy products currently are manufactured by third-party subcontractors. Although a certain degree of control is sacrificed by sub-contracting the manufacturing process, management believes it can adequately control the quality and flow of the product.

The ActiPatch Therapy products are manufactured in two stages:

- Surface Mount Technology (SMT): The central operating component of the devices is a small custom microchip that controls the timing functions and the pulsed, high frequency electromagnetic field. Manufacturing of this microchip involves the computer automated assembly and testing of sub-miniature electronic components on a circuit board. Many surface mount manufacturers can provide the electronic components necessary to manufacture the microchip. Batch production of the product takes approximately six to eight weeks. The Company anticipates it will develop a preferred vendor relationship with a surface mount technology assembler to inventory components.

- Encapsulation: The second stage of the manufacturing process entails laminating the electronics board in plastic and onto a foam backing.

Once the product is assembled, it is labeled and packaged at an FDA-approved facility in stackable cardboard boxes, together with the appropriate wipes and adhesive pads. The Company manufactures its ActiPatch Therapy products in compliance with the FDA's Good Manufacturing Procedures and ISO 13485 Medical Devices quality standards. The Company's Director of Engineering is responsible for overseeing compliance with these standards. See "Regulatory Environment" below.

The Company believes it has made significant progress in improving its product and reducing the cost of manufacturing.

Patents and Intellectual Property

Throughout its existence, the Company has aggressively created and developed intellectual property in the medical device field. The Company acquired 44 patents that now have expired. Instead of filing for FDA regulatory delay patent extensions, the Company opted to file new patent applications to cover its technological improvements, fixing and delivery methods, and medical treatment procedures. The Company has approximately 150 new patent claims pending. We have filed in the United States, the European common market, Canada, and other major European markets such as Japan, South Korea, Mexico, Australia, etc.

The Company relies upon a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect its rights to any intellectual property it creates. Any infringement of the Company's proprietary rights could result in significant litigation costs, and any failure to adequately protect the Company's proprietary rights could result in its competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite the Company's efforts to protect its proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Accordingly, the Company may not be able to prevent misappropriation of its technology or deter others from developing similar technology. Furthermore, policing the unauthorized use of the Company's products is difficult. Litigation may be necessary in the future to enforce the Company's intellectual property rights or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources and could significantly harm the business of the Company.

The Company has filed new patent applications in the United States and with the World Intellectual Property Organization for the Company's recent product improvements, and it intends to file additional patent applications on various technologies in the United States and elsewhere. The Company cannot assure you that any patent will be issued from any pending application. Furthermore, the Company cannot assure you that any patent that has been, or may be issued, covers or wi