BioElectronics Corp
Form SB-2/A
September 21, 2006

As filed with the Securities and Exchange Commission on September 21, 2006

Registration No. 333- 136602

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM SB-2/A

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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BioElectronics Corporation

(Name of Small Business Issuer in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**3845** (Primary Standard Industrial Classification Code Number)	**52-2278149** (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)

_____

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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.

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)	10,451,389 shares	$ 0.14	$ 1,463,194.40	$156.56
Common Stock, $.001 par value (3)	9,311,500 shares	$ 0.14	$ 1,303,610.00	$ 139.49
Common Stock, $.001 par value (4)	3,420,000 shares	$ 0.14	$ 478,800.00	$ 51.23
Total Registration Fee (5)	23,182,889 shares	_____	$ 3,245,604.40	$ 347.28

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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 September 20, 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 and include 166,667 shares for accrued interest and 249,999 shares for liquidated

damages. 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 two to 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 were issued in connection with the Private Placement Offering of the Company's common stock on April 4 2005.

(5) Previously paid

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.

Prospectus

Subject to Completion, Dated September 21, 2006

23,182,889 Shares of Common Stock

Makers of Drug Free, Anti-Inflammatory Patches

This prospectus relates to the resale of up to 23,182,889 shares of common stock (the "Common Stock"), of which 10,451,389 shares are issuable upon the conversion of promissory notes of BioElectronics Corporation (the "Company") and includes 166,667 shares for accrued interest and 249,999 shares for liquidated damages, 3,420,000 shares listed in connection with the Company's April 2005 Private Placement Offering, and 9,311,500 shares of Common Stock 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.

Bid and ask prices for our Common Stock are quoted from broker dealers on the Pink Sheets. The Company's symbol is "BIEL. OTC:PK."

See "Risk Factors" beginning on page 7 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 financial statements and related notes included elsewhere in this Prospectus.

OUR COMPANY

BioElectronics Corporation (the "BioElectronics", "us", "our", "we" or the "Company") is the maker of ActiPatch Therapy ("ActiPatch Therapy"), a microchip embedded into a disposable soft foam patch that delivers pulsed electromagnetic field therapy, a clinically proven and widely accepted anti-inflammatory and pain relief therapy, previously only available from large facility-based machines. ActiPatch Therapy is designed to meet the market demand for an effective, inexpensive, drug-free, therapeutic agent for the soft tissue injury market.

Through June 30, 2006, the Company has a cumulative operating loss of approximately $4,665,000 and negative working capital of approximately $831,000.

ActiPatch Therapy causes a reduction in the swelling (edema) and inflammation that occurs after tissue injury a true and beneficial acceleration in the healing process. When soft tissue is damaged, the cells separate to prevent the transmission of infection. The cells leak fluid and cellular components break down while the cellular debris causes inflammation, swelling and pain. ActiPatch Therapy stabilizes the leaking cell membrane by, in effect, recharging the membrane. The pulsed energy delivered by ActiPatch Therapy drives out the edematous fluid, along with byproducts of the damaged tissue. ActiPatch Therapy creates an environment in which cell-to-cell communication is re-established in the area of the injured tissue. Inflammation is decreased and tissue repair begins. As a result of the decreased inflammation, a decrease in the pain associated with the soft tissue injury often occurs. The US Food and Drug Administration ("FDA") and Health Canada (Canada's FDA) have approved ActiPatch Therapy for the reduction or treatment of edema (swelling). Reduction of swelling reduces the pain. The Canadian market clearance after an expansive review of the literature also included a specific clearance for the relief of pain in muscosketal complaints.

Podiatry Clinical Researchers are referred to our internal web site for podiatric research at www.pemfpodiatry.com. Our white papers *The Physics and Science Behind ActiPatch Therapy* and *Pulsed Electromagnetic Therapy in Podiatry include* papers and studies on the use of ActiPatch and independent clinical references supporting the medical use of pulsed electromagnetic energy.

Market opportunities for the products are:

Sprains/Sports Injuries;

Wound Care;

Post-Surgical;

Fracture Management; and

Repetitive Stress Injuries

The following are the regulatory milestones the Company has achieved:

FDA market clearance for the treatment of edema following blepharoplasty.

ISO and CE Certifications (European & Common Union)

Health Canada Market clearance for the relief of musculoskeletal pain

The clinical effectiveness of the product has been well established. Testing performed at the Bioelectromagnetics Research Laboratory at the State University of New York has shown that ActiPatch Therapy provides an adequate dosage of electromagnetic energy for the treatment of soft tissue, and that its power at the skin level is equivalent to that of traditional high-power devices. The power level is six to nine orders of magnitude higher than that which is required to show a biological effect. It also demonstrated that the cumulative effect of continuous delivery provides greater therapeutic benefit than sporadic treatments. More information on the testing and clinical effectiveness of our product is included as an exhibit to the Registration Statement or the website: http://femu.de/.

Clinical Trials

In 2006, the Company and the Lahey Clinic jointly announced a three-year program to study the effects of ActiPatch Therapy on a variety of soft tissue injuries and related medical conditions. The internationally renowned Lahey Clinic of Boston, whose faculty is affiliated with the Medical Schools of Harvard and Tufts, has committed to initiating a number of double-blind clinical studies on ActiPatch Therapy in the areas of plastic surgery, orthopedics and chronic wound care. Results from these clinical trials will be submitted to the United States Food and Drug Administration (the "FDA") for expanded indications for the use of ActiPatch Therapy.

Significant Strategic Marketing Relationships Recently Established

The Company, on December 4, 2003 signed an exclusive three-year supply and distribution agreement with Byron Medical, Inc. ("Byron") a subsidiary of Mentor Corporation (NYSE:MNT), a large supplier of medical products worldwide, to cover marketing of ActiPatch Therapy products to plastic surgeons worldwide. For the six months ended June 30, 2006 sales to Byron were approximately $97,000. The Byron Medical agreement is dated December 4, 2003. Byron Medical is a wholly owned subsidiary of Mentor Corp., Santa Barbara, California. Mentor has announced that it intends to shut down its Byron Medical operations. The Company is negotiating with a major medical supplies distributor to market and sell its products plastic and other surgeons.

In July 2005, the Company announced an agreement with MaxMed Technologies ("MaxMed"), maker of the PedAlign ("PedAlign") brand of custom orthotics products. The new wearable and disposable ActiPatch Therapy will be available as an insert into the PedAlign product as a unique offering to providers that order PedAlign custom orthotic products.

In November 2005, the Company announced a partnership with Profoot, Inc. ("Profoot") for distribution of the ActiPatch Therapy product in Canada. The product will be available at prominent retail stores throughout Canada. Profoot is America's second largest brand of consumer foot care products and the brand is available at tens of thousands of mass-retail outlets in Canada, the U.S. and 20 other countries. The Company has also entered into a distribution agreement with Virginia-based Medical Sales Professionals, Inc (MSP). MSP sells and distributes medical supplies to professional and college sports teams and health care providers. Currently, ActiPatch Therapy is in use by 14 professional sports teams.

Risk Factors

As with most pharmaceutical product candidates, the development of our products is subject to numerous risks, including inability to obtain necessary regulatory approvals to market the products, our ability to satisfy future capital requirements and implement expansion plans, failure of physicians and patients to accept and use our products, competition from established entities, protection of proprietary information and dependence on third party collaborators to conduct research and development of the products. For a more detailed discussion of some of the risks associated with our Company, you are urged to carefully review and consider the section entitled "Risk Factors" beginning on page 7 of this prospectus.

General

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 23,182,889 shares of Common Stock, of which 10,451,389 shares are issuable upon the conversion of promissory notes, 3,420,000 shares issued in connection with the Company's April 4, 2005 Private Placement Offering and 9,311,500 shares issuable upon the exercise of outstanding warrants of our Company by certain selling stockholders identified in this prospectus. All of the 23,182,889 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.

Common Stock Offered

23,182,889 shares

Common Stock Offered by the Selling Stockholders

23,182,889 shares, including 9,311,500 shares issuable by the Company if the selling stockholders elect to exercise their warrants.

Common Stock Outstanding at July 15, 2006(1)

66,388,642 shares

Use of Proceeds of the Offering

The Company will not receive any of the proceeds from the sale of the shares, it may receive the proceeds from the exercise, if any, of the warrants included therein.

Pink Sheet Ticker Symbol

BIEL

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(1)

Does not include (i) 10,451,389 shares that are issuable upon the conversion of outstanding convertible notes at $0.18 per share, (ii) 167,000 restricted compensatory shares which have been earned and not issued to a former corporate officer (iii) 9,311,500 shares issuable upon the exercise of outstanding warrants at exercise prices ranging from $.33 to

$.50 per share, subject to adjustment, or (iv) 2,765,000 shares issuable upon the exercise of outstanding options at exercise prices ranging from $.30 to $.50 per share, subject to adjustment, granted under the BioElectronics Equity Incentive Plan (the "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

	Year Ended December 31,		Six Months Ended June 30,	
	2005	**2004**	**2006**	**2005**
Net revenues	$303,690	$302,002	$165,319	$ 45,384
Loss from operations	$1,895,091	$771,127	$1,368,676	$265,010
Net loss	$1,992,499	$792,799	$1,627,934	$274,930
Net loss per common share	$.035	.$017	$0.025	$.005
Weighted average number of common shares Outstanding				
Basic	57,626,059	45,976,334	63,928,909	53,499,892
Diluted	N/A	N/A	N/A	N/A

Summary Balance Sheet Information

	June 30, 2006
Working capital	$ (831,507)
Total assets	$ 868,366
Total liabilities	$ 2,310,817
Stockholders' deficiency	$ 1,442,451

RISK FACTORS

You should carefully consider the risks described below before investing in the Company. We consider these risks to be significant to your decision whether to invest in our Common Stock at this time. 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

The Company has a limited operating history, and there is no assurance that the Company will ever be profitable. 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.

The Company has a history of operating losses and the Company anticipates that it will incur future operating losses. The Company was incorporated on April 1, 2000. Through June 30, 2006 the Company recorded a cumulative operating loss of approximately $4,665,000. The Company expects to incur additional losses until sufficient sales of its ActiPatch Therapy products are achieved. The Company has not yet commenced 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.

The Company's ability to operate is conditioned on the Company's ability to obtain 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 the 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.

The Company depends on a limited number of products and almost 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 or other factors, would have a material adverse effect on the business, operating results and financial condition of the Company.

The acceptance of the 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.

The Company faces a 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.

The Company faces extensive competition from the medical device market, and potential competitors, with a longer operating history and greater resources, may harm the Company's business. 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 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.

The Company must manage its expansion to maintain its level of service to its customers. The Company may encounter significant strain and additional demands on its 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.

The Company has a high level of dependence on key existing and future personnel for its success. 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 successfully attract and retain key personnel.

The Company relies on third parties for the supply and manufacturing of its products, and inability of the Company to retain such third party manufacturers may significantly harm the Company's business . BioElectronics subcontracts the manufacturing of its products to third parties. These parties manufacture the products to BioElectronic's specifications. 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.

The Company is dependent on third party distributors to distribute its products. Loss of any of these distributors may affect the Company's ability to provide customers with its products. 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 will 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.

The Company faces the risk of 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.

The Company may not be able to adequately protect its 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 patent applications in the United Sates, the European Common Market, Canada, and the other major markets such as Japan, South Korea, Mexico and Australia.

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.

The Company may face infringement of third-party rights claims in the future. 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.

The Company may face royalty claims, which may result in litigation and divert the efforts of the Company's personnel. In April 2000, the Company acquired from Patricia A. Whelan, the wife of Andrew J. Whelan, the Chairman of the Board and President of the Company, certain

patents (including all 44 patents currently owned by the Company), technology, research, trademarks and other assets relating to pulsed electromagnetic energy therapy (the "Acquired Assets"). The Acquired Assets were acquired by Mrs. Whelan in October 1994 from Shannon Investments, Inc. ("Shannon") in a transaction in which Mrs. Whelan agreed to pay to Shannon (i) 20% of any consideration received by Mrs. Whelan, directly or indirectly, from the Acquired Assets, including any sales of products utilizing any of the Acquired Assets and (ii) a 2% royalty payment on any sales by Mrs. Whelan of products utilizing the Acquired Assets. In such transaction, Shannon acknowledged that Mrs. Whelan had the authority to dispose of or retain the Acquired Assets in her sole discretion. Prior owners of the Acquired Assets transferred the Acquired Assets under transfer and assignment agreements that included similar 2% royalty payments. While the Company believes it is not responsible for the payment of any royalty or other payments to any prior owner(s) of the Acquired Assets, there can be no assurance that any of such prior owners will not claim that royalty or other payments are due and owing by the Company. Any such claims, with or without merit, could be time consuming, result in costly litigation, and divert the efforts of the Company's management personnel.

The profitability of our Company may be affected by efforts to reduce costs associated with health care. 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.

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 may not accept our device in comparison to competing products. 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.

The Company may incur extensive costs to comply 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. 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 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 the Company's products 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.

The Company is dependent on its ability to generate product revenues, and there is no guarantee that the Company will be able to produce such 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 our 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 developing the products or network downtime; and

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 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; and

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 49.17% 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. Such limited public market may affect the stock price of the Company's Common Stock and may lead to potential loss of an investor's interests. 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 3,420,000 investor warrants (the "Investor Warrants") sold in the Private Placement on April 4, 2005 have three (3) years after the final closing to exercise their Investor Warrants, and the holders of the 491,500 agent's warrants (the "Agent's Warrants") issued in connection with the Private Placement on April 4, 2005 will have two (2) years or five (5) years, depending upon the type of Agent's Warrant. On December 8, 2005, the Company issued senior secured convertible 24 month term notes in the aggregate amount of $750,000 to three investors ("the Notes"). The Notes have an 8% coupon, payable on a monthly basis. On August 14, 2006 the Subscription Agreement between the Company and the subscribers listed therein, pursuant to which the Company issued the Notes, was modified ("the Modification and Amendment Agreement") to change the Notes conversion price to $0.18 per share. As a result, the Notes are convertible into 4,166,667 shares of common stock and the Additional Notes (defined below) into 1,388,889 shares of common stock. Pursuant to the terms of the Modification and Amendment Agreement, the Subscribers agreed to accelerate a funding of an aggregate of $100,000 of the Second Closing Purchase Price to the Company. Also, as part of the Modification and Amendment Agreement, accrued interest of $30,000 and liquidated damages of $45,000 through August 14, 2006 will be added to the Notes and converted into 416,666 shares of the Company's Common Stock. The Notes issued are convertible notes at the option of the investors, at a fixed price of $0.18 per share. For every share of the Company's Common Stock for which the Notes are converted, at the original conversion price, the investors will receive one warrant, exercisable within a five-year period from the conversion of the Notes. On December 8, 2005, **t**he Company also agreed to issue senior secured convertible 24 month term notes in the aggregate amount of $250,000 to three investors (the "Additional Notes"). The Additional Notes are identical to the Notes issued on the same date. On August 14, 2006 $100,000 relating to the Additional Notes was received by the Company leaving a balance of $150,000 to be received in the future. 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, the Additional 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.

"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 terms. These 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.

DILUTION

The Company had a net tangible book value of $(1,518,544) or $(0.02) per share, as of June 15, 2006, based upon 66,388,642 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.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market for Common Stock

Bid and ask prices for our Common Stock are quoted from broker dealers on the Pink Sheets. BioElectronics symbol is "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 Q2 2006 based upon reports of transactions on the OTC Pink sheets.

2004	**Low**	**High**
Second Quarter (commencing April 12)	$ 0.17	$ 1.05
Third Quarter	$ 0.28	$ 0.50
Fourth Quarter	$ 0.31	$ 0.47
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
2006		
First Quarter	$0.20	$0.41
Second Quarter	$0.17	$0.31

The high and low prices listed have been rounded up to the next highest two decimal places.

Since no public information, including audited financial statements was available about our business, operating results or financial condition during the time the bid prices occurred, the bid prices reflected might not reflect the historical valuation of the Company on a per share basis, nor be an accurate indication of the prices at which shares may be traded in the future, had such information been available.

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. The Company has filed a Form 15c2-11 with the NASD OTC Compliance Unit in an effort to trade on the OTC Bulletin Board, and if and when we are declared effective by the Commission, we will be eligible to trade on the OTC Bulletin Board. If and when we are accepted for trading on the OTC Bulletin Board, 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 August 10, 2006, the closing bid price of our Common Stock as reported by the Pink Sheets was $0.17 per share.

Holders

As of July 15, 2006, there were 230 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, as we discuss under the caption "Risk Factors" and elsewhere in this prospectus, which could materially and adversely affect us and our actual results. As a result of these 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. Except as required by applicable law, 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.

Overview

We are a medical device Company that develops and markets products based on our patented ActiPatch Therapy technology. We have taken proven medical technologies and have made them available in new convenient, cost-effective dermal patches. By applying advanced microelectronic technology, we have dramatically reduced the size and cost of a clinically proven, widely accepted therapy. Our ActiPatch Therapy device delivers pulsed electromagnetically field therapy in a self-applied, inexpensive patch.

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

- Received U.S. 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 Health Canada approval to sell ActiPatch Therapy for the relief of pain and muscoskeletal complaints, without prescription.

Our ActiPatch Therapy technology is applicable across many soft-tissue injury markets. We have organized our marketing and sales efforts based on product markets. These business units are comprised of the following: Repetitive Stress Injuries (carpel tunnel, heel pain, tennis elbow, frozen shoulder), Post-Surgical Wounds (general surgery, cosmetic surgery, and oral surgery), Chronic Wounds (ischemic ulcers, diabetic ulcers, bedsores), and Sports Medicine (sprains, strains, muscle spasms).

To date, we have focused our product development and sales and marketing efforts on the plastic surgery and podiatry markets. In 2004 we entered into a Supply and Distribution Agreement with Byron Medical, the wholly owned subsidiary of Mentor Corporation. Byron Medical distributes the Company's products to the plastic surgery market. It is anticipated that they will begin international sales distribution in 2006, and will accelerate their domestic sales with a focused direct response sales and marketing campaign.

In April 2005, the corporate office relocated to Frederick Innovative Technology Center and increased the staff by two (2) full-time employees. In February 2006, the Company was the recipient of the Frederick County Incubator Company of the Year Award presented at the annual award event sponsored by the Tech Council of Maryland.

In June of 2005, we opened our Westlake Village, California sales office and commenced direct sales and marketing program. Initial sales were to augment Mentor's sales efforts to plastic surgeons. The initial shipments were promoted as evaluation units. Miscommunication and misrepresentations led many of the surgeon's office staff to conclude that the order were samples resulting in significant bad debt expense.

In October 2005, management decided to have Mentor focus on sales to plastic surgeons and to focus BioElectronic's sales efforts on the podiatric market. Initial sales indicate that direct response marketing with a follow on telemarketing is an effective method for sales to podiatric practices. The Company intends to continue to focus on the podiatric market and has begun to exhibit at state and national podiatry association trade shows.

Also, in October 2005, the Company entered into a distribution agreement with Profoot, Inc. ("Profoot") to resell ActiPatch Therapy in Canada under its ProFoot brand name. Profoot anticipates that they will have the product on the shelves in Canada in the summer of 2006. Profoot sells and distributes in 47 countries, including the United States. International sales will be expanded predicated on Canadian sales results. BioElectronics has regulatory retail market clearance in Canada and the European Common Market. Additional regulatory approvals, if needed, may be sought for the international market outside of Canada and the European Common Market. United States retail distribution is predicated on obtaining a specific heel pain market clearance from the United States Food and Drug Administration.

Recent Events

Slim Line Products Launched

In January 2006, we commenced 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's product attributes 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.

Lahey Clinic-Clinical Studies Commenced

In March 2006, the Company and the Lahey Clinic jointly announced a three-year program of clinical trials on a variety of soft tissue injuries and related medical conditions. The internationally renowned Lahey Clinic of Boston, whose faculty is affiliated with the Medical Schools of Harvard and Tufts, has committed to initiating a number of double-blind clinical studies on ActiPatch in the areas of plastic surgery, orthopedics and chronic wound care. Results from these clinical trials will be submitted to the Food and Drug Administration for expanded indications for the use of ActiPatch and will be submitted for publication in the appropriate medical journals.

510K Notification Filed

In May 2006, the Company filed a new 510(k) with the Food and Drug Administration for a pre-market notification 90 days prior to the date when the Company proposes to introduce into interstate commerce for commercial distribution a new device, to be known as the ActiPulse . The new device is indicated for the adjunctive use in the palliative treatment of post operative pain and edema in superficial soft tissue. The notification summarizes the Company's request for pre-market approval of the ActiPulse device based on its "Substantial Equivalence" to the magnetic Resonance Therapy device. We cannot be sure that the application will be cleared by the FDA on a timely basis, if at all. In addition we cannot be sure that the product, if cleared for marketing, will ever achieve commercial acceptance. The FDA approved broader indication of use will open additional marketing opportunities.

Critical Accounting Policies and Estimates

We base our discussion and analysis of financial condition and results of operations on our financial statements which have been prepared in accordance with United States generally accepted accounting principles. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and actual results could differ materially from these estimates. The Company's significant

accounting policies include:

Revenue Recognition

The Company recognizes revenue when a sales agreement has been executed, shipment has occurred and collectibility of the fixed or determinable sales price is reasonably assured. Orders from distributors are processed upon the receipt of a written purchase order. Orders from physicians are received by telephone, mail, and fax. Orders are received and a sales order is created by the Company's Westlake Village, California sales office. The sales orders are forwarded to the Maryland office, where the product is packed and shipped and invoiced. The Company automatically extends Net 30 terms to licensed health care professionals without conducting a credit check or requiring collateral.

Accounts Receivable Allowances

The Company provides allowances for expected returns, claims and doubtful accounts based on information provided by the customers, the age of the receivable balances both individually and in the aggregate and estimated return rates. BioElectronics reevaluates its estimates to assess the adequacy of it recorded accruals for returns, claims and doubtful accounts and adjusts the amounts as necessary.

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 provides alternative transition methods to companies that elect to expense stock-based compensation using the fair value approach under SFAS 123. While the Company has adopted the disclosure only provisions of SFAS 148, it will continue to account for stock-based compensation in accordance with APB No. 25 through December 31, 2005. On January 1, 2006, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation". The Company will account for the fair value of its grants and options and record a compensation cost against income.

Results of Operations

The following table sets forth our statement operations data for the Six Months Ended June 30, 2006 compared to the Six Months Ended June 30, 2005 and the Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 and should be read in conjunction with our financial statements and the related notes appearing elsewhere in this prospectus.

	Six Months Ended		Year Ended	
	June 30		December 31,	
	2006	2005	2005	2004
Revenues	$ 165,319	$45,384	$303,690	$302,002
Cost of Goods Sold	$ 45,534	$21,226	$192,336	$112,724

Operating Expenses	$ 1,488,641	$289,168	$2,006,445	$960,405
Interest and Other (Income) and Expense	$ 259,258	$9,920	$ 87,481	$21,672
Net (Loss)	$ 1,627,934	$274,930	$1,992,499	$792,799

Six months ended June 30, 2006 compared to the six months ended June 30, 2005

Revenue

Revenue increased to $165,319 in the six months ended June 30, 2006 compared with revenue of $45,384 for the six months ended June 30, 2005 an increase of 364%, resulting primarily from sales through our distributor Byron Medical Inc.

We anticipate our revenue over the next year to be increasingly derived from direct sales to physicians as we focus on increasing physician awareness of our products through attendance at trade shows and direct advertising through podiatric medical associations.

Allowance for Doubtful Accounts

The Allowance for Doubtful Accounts was $34,615 at June 30, 2006 and none at June 30, 2005. Bad debt expense for the six months ended June 30, 2006 was $4,439 and 2005 none for the six months ended June 30, 2005.

Cost of Goods Sold

Cost of goods sold consists of manufacturing costs, materials, labor and other direct product costs. Cost of goods sold was $45,534 for the six months June 30, 2006 compared to $21,226 in the six months ended June 30, 2005. The nominal increase in cost, as related to the substantial increase in revenue during the two periods, is attributed to the significantly lower cost of manufacturing achieved by the relationships established with subcontracted manufacturers and significantly lower tooling expenses.

Operating Expenses

Operating expenses consist of costs related to general and administrative expenses, design and development expense and Selling expenses. Design and development expenses consist mainly of supporting our design team and consulting fees. General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations while also providing an infrastructure to support future growth. The major items in this category are management and staff salaries, rent/leases, and professional services. All costs relating to our registration statement have been expensed. Selling expenses include commissions and salaries, sampling expense, shipping and delivery expenses and travel-related expenses. We expect general and administrative and expenses to increase as a result of increased legal and accounting fees anticipated in connection with our compliance with ongoing reporting and accounting requirements of the SEC if and when our registration is declared effective, and to the extent that we expand our business.

Operating expenses for the six months ended June 30, 2006 increased $1,199,293 to $1,488,461 compared to the six months ended June 30, 2005.

General & Administrative Expense

General and Administrative expenses for the six months ended June 30, 2006 increased $833,670, over the six months ended June 30, 2005 primarily attributed to audit fees, consulting fees, legal and professional fees and investor relations fees, all related to the Company's financing activities.

In April 2005, the corporate office was relocated to the Frederick Innovative Technology Center, a business incubator, located on the campus of Hood College in Frederick, Maryland. We expect that general and administrative expenses will increase in 2007 when we relocate to a larger facility to accommodate our shipping and order fulfillment space requirements and add additional sales staff. Additionally, a portion of the expected increase in 2006 compared to 2005 will be attributable to our January 1, 2006, adoption of Financial Accounting Standard Board Statement No. 123R.

Design & Development Expenses

For the six months ended June 30, 2006 design and development costs were $169,063 compared to none in the previous comparable periods. These costs consist primarily of expenses for personnel, consultants and the employment in June of 2005, of a Vice President of Design & Development.

Selling Expenses

For the six months ended June 30, 2006 selling expenses increased $169,063 over the amount for the six months ended June 30, 2005 due to increases in rent, salaries and travel offset by a decrease in sampling expense of $37,000.

We anticipate that sales and marketing spending will continue to increase in absolute dollars as a result of higher consultant commissions from increased sales, higher expenditures on promotional materials, sampling expenses and travel costs related to exhibiting at trade shows and podiatric conferences nationwide, and additional investments in the sales, marketing and support staff necessary to market our products.

Interest and Other Income and Expense

Other Expenses for the six months ended June 30, 2006 increased $87,843 over the amount for the six months ended June 30, 2005 of $9,920 primarily due to the increase in interest expense relating to increased borrowing from shareholders and the issuance of convertible debt. It, increased from $21,672 in 2004 to $39,740 for the year ended December 31, 2005, an increase of $18,068. The increase is attributable to interest on stockholder loans and the amortization of deferred financing costs that relate to the warrants that were part of debt financing.

The year ended December 31, 2005 compared to year ended December 31, 2004

Revenue

Revenue increased to $303,690 for the year ended December 31, 2005 compared to revenue of, $302,002 for the year ended December 31, 2004. All the sales to MaxMed to date have been for ActiPatch units that are being embedded into MaxMed's branded PedAlign custom foot orthotic.

We anticipate our revenue over the next year to be increasingly derived from direct sales to physicians as we focus on increasing physician awareness of our products through attendance at trade shows and direct advertising through podiatric medical associations.

Allowance for Doubtful Accounts

Our bad debt expense for the year ended December 31, 2005 was large because, we included in revenue units that were sold for evaluation purposes and at a discount. We expected to be paid for them. When we realized we were not going to be paid for the units we wrote off the receivable as a bad debt. The practice of selling evaluation units has been discontinued.

Cost of Goods Sold

Cost of goods sold consists of manufacturing costs, materials, labor and other direct product costs. Cost of goods sold was $192,336 for the year ended December 31, 2005 compared to $112,724 for the year ended December 31, 2004, an increase of $79,612 or 71%. The increase in cost is for design change of the product, new tooling, ISO costs and the write-off of older model inventory.

Operating Expenses

Operating expenses have historically consisted of costs related to general and administrative expenses, design and development expense and Selling expenses. Design and development expenses have consisted mainly of supporting our design team and consulting fees. General and administrative expenses include all corporate and administrative functions that serve to support our current and future operations while also providing an infrastructure to support future growth. The major items in this category are management and staff salaries, rent/leases, and professional services. All costs relating to our registration statement have been expensed. Selling expenses include commissions and salaries, sampling expense, shipping and delivery expenses and travel-related expenses. We expect general and administrative and expenses to increase as a result of increased legal and accounting fees anticipated in connection with our compliance with ongoing reporting and accounting requirements of the SEC if and when our registration is declared effective, and to the extent that we expand our business.

Operating expenses increased from $960,405 for the year ended December 31, 2004 to $2,006,445 for the year ended December 31, 2005, an increase of $1,046,040.

General & Administrative Expense

General and Administrative expenses for the year ended December 31, 2005 was $1,103,896 compared to $695,058 for year ended December 31, 2005, an increase of $408,838 or 59%. The increase related primarily to a $135,000 increase in accounting and legal fees associated with the convertible note financing and SEC SB-2 filing, an additional $20,000 spent on investor relations, $77,000 increase in bad debt expense, and $83,164 in increased spending associated with office equipment and supplies (computers, software, furniture), and rent expenses.

In April 2005, the corporate office was relocated to the Frederick Innovative Technology Center, a business incubator, located on the campus of Hood College in Frederick, Maryland. We expect that general and administrative expenses will increase in 2007 when we relocate to a larger facility to accommodate our shipping and order fulfillment space requirements and add additional sales staff. Additionally a portion of the expected increase in 2006 compared to 2005 will be attributable to our January 1, 2006, adoption of Financial Accounting Standard Board Statement No. 123R.

Design & Development Expenses

For year ended December 31, 2005, design and development costs was $210,156 compared to none in the prior year. These costs consist primarily of expenses for personnel, consultants and the employment in June of 2005, of a Vice President of Design & Development.

Selling Expenses

Sales and marketing expense for the year ended December 31, 2005 was $692,393 compared to $265,347 for the year ended December 31, 2004, an increase of $427,046 or 161%. This increase is related primarily to the establishment of our Westlake Village, California sales office in June 2005 and staffed with four full time direct telephone sales agents, a sales manager, a graphic artist, and the President of the Orthopedic Division. The office is also occupied by our Design and Development personnel. Sales salaries and commission expense for the Westlake Village office was $412,724. The amount expended on travel increased by $32,685. Increased costs were incurred in the training and sales support for sales representatives.

We anticipate that sales and marketing spending will continue to increase in absolute dollars as a result of higher consultant commissions from increased sales, higher expenditures on promotional materials, sampling expenses and travel costs related to exhibiting at trade shows and podiatric conferences nationwide, and additional investments in the sales, marketing and support staff necessary to market our products.

Interest and Other Income and Expense

Other Expenses for the year ended December 31, 2005 increased to $39,740 from $21,672 in 2004, an increase of $18,068. The increase is attributable to interest on stockholder loans and the amortization of deferred financing costs that relate to the warrants that were part of debt financing.

Financial Condition, Liquidity and Capital Resources

Our financial condition improved in December 2005, when we sold $750,000 fixed rate, senior secured convertible 24 month term notes (the "Notes") that bear interest at 8% per annum with monthly payments starting on the six month anniversary in cash or by the conversion of such Principal amount and interest into Common Stock at the option of the Company. On September 8, 2006, the Company will begin making monthly principal payments of $46,875 and interest payments of approximately $4,000. The subsequent interest payment will decline as the principal is reduced.

Also, on December 8, 2005, the Company agreed to issue $250,000 fixed rate, senior secured convertible 24 month term notes (the "Additional Notes") that bear interest at 8% per annum with monthly payments starting on the six month anniversary in cash or by the conversion of such Principal amount and interest into Common Stock at the option of the Company. Such Additional Notes are identical to the Notes issued on the same date, and the issuance and conversion of such Additional Notes shall be completed upon the effectiveness of the Registration Statement. Such Additional Notes are not contingent to any other conditions, and the right to issue and convert these Additional Notes is in the control of the Company.

On August 14, 2006 the Subscription Agreement between the Company and the Subscribers listed therein, pursuant to which the Company issued the Notes, was modified ("the Modification and Amendment Agreement") to change the Notes conversion price to $0.18 per share. As a result, the Notes are convertible into 4,166,667 shares of common stock and the Additional Note into 1,388,889 shares of common stock. Pursuant to the terms of the Modification Agreement, the Subscribers agreed to accelerate a funding of of $100,000 of the Second Closing Purchase Price to the Company. Also, as part of the Modification and Amendment Agreement, and liquidated damages through August 14, 2006 will be added to the Notes

Sources, Uses and Cash Requirements

As of June 30, 2006 the Company had $0 in cash. As September 18, 2006 we had $72,000 in cash.

Since our inception in 2000, our operations have never been profitable and we have an accumulated deficit of approximately $5 million as of June 30, 2006. Our operations have been financed through private placements of our common stock and debt. The Company has raised $2,157,000 though the private placements of equity and $1,120,000 through the sale of convertible debentures. These sources have provided an adequate supply of capital to fund the Company's development and growth. The Company expects that the supply and cost of capital from these sources shall be stable in the foreseeable future.

Cash requirements are driven by three primary factors: production/inventory, hiring of sales representatives and legal fees associated with patent and regulatory requirements. Cash required for product inventory is a function of sales orders. The time to produce products is typically four weeks or less which mitigates the need to build up costly inventory. Sales representatives are hired either as external (commission only) representatives or hired internally only after certain sales targets are met for existing internal sales representatives. Legal fees for patents and regulatory are based on the amount of new product design and are predictable for the short term.

Based on our projection of revenue, expenses and capital expenditures, management believes a minimum capital raise of $1,000,000 will be required in 2006. Additional capital raises will be pursued to allow the Company to accelerate on market and product development efforts. Until we can generate significant cash from our operations, we expect to continue to fund our operations primarily from the proceeds of offerings of our equity securities convertible debt.

As of December 31, 2005 the Company has $191,281 in short term convertible notes payable, $74,621 in short term related party notes payable, $562,500 in long term convertible notes payable and $298,904 in long term related party notes payable.

BUSINESS

General

The Company designs, develops 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

There are approximately 10,000 clinical studies on the use of electromagnetic therapy at the Research Center for Bioelectromagnetic Interactions. More information on the studies relating to our product can be found at the following website: http://femu.de/.

The therapy has been used by physicians, therapists and athletic trainers around the world for approximately 70 years. We have received U.S. Food and Drug Administration (the "FDA") approval for the treatment of edema (swelling) following blepharoplasty. We have also received Health Canada approval to sell the product over the counter for the relief of muscoskeletal pain and inflammation and CE Mark (European Common Market) approval for over the counter sales.

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. 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 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 soft tissue injuries (including surgical incisions, dental incisions, sprains and strains).

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, 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 provides "Sample Packs" consisting of six units for testing. The cost of these sample packs is recorded as a Marketing Expense.

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 repa