Andover Medical, Inc.
Form SB-2/A
November 16, 2007

As filed with the Securities and Exchange Commission on November 16, 2007

Registration Number 333-142387

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 6 TO

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ANDOVER MEDICAL, INC.

(Name of Small Business Issuer in its charter)

Delaware	**3842**	**51-0459931**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

510 Turnpike Street, Ste. 204
North Andover, MA 01845
(978) 557-1001

(Address and telephone number of principal executive offices and principal place of business)

Edwin A. Reilly
Chief Executive Officer
Andover Medical, Inc.
510 Turnpike Street, Ste. 204
North Andover, MA 01845
(978) 557-1001

(Name, address and telephone number of agent for service)

Copies of all communications to agent for service should be sent to:

Elliot H. Lutzker, Esq.
Phillips Nizer LLP
666 Fifth Avenue
New York, NY 10103-0084
Telephone: (212) 977-9700
Facsimile: (212) 262-5152

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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. o

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. o

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. o

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered(1)**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common stock, par value $.001 per share, issuable upon conversion of Series A Preferred Stock	11,414,144	$ .65 (2)	$ 7,419,194	$ 227.77
Common stock, par value $.001 per share, issuable upon exercise of Class A Warrants	7,534,339	$ .65 (2)	$ 4,897,320	$ 150.35
Common stock, par value $.001 per share, issuable upon exercise of Class B Warrants	5,356,512	$ .65 (2)	$ 3,481,733	$ 106.89
Common stock, par value $.001 per share, issuable upon payment of Preferred Stock dividends(3)	608,230 (3)	$ .60 (4)	$ 364,938	$ 11.20
Total	24,913,225		$ 16,163,185	$ 496.21 (5)

(1) Pursuant to Rule 416 under the Securities Act of 1933, these shares include an indeterminate number of shares of common stock issuable as a result of stock splits, stock dividends, recapitalizations or similar events.

(2) Estimated solely for the purposes of calculating the registration fee. Pursuant to Securities Act Rule 457(c), based on the last closing sales price of the Registrant s common stock of $0.65 on April 23, 2007, on the Over-the-Counter Bulletin Board (OTCBB).

(3) Dividends paid in shares of common stock at the annual rate of 6% on $3,960,284 principal amount of Series A Preferred Stock have been registered for the next two years. The amount of dividends paid in shares of common stock to each of the selling stockholders listed in the Selling Stockholder table in this Registration Statement is calculated by multiplying the number of shares of common stock underlying the Series A Preferred Stock held by such selling stockholder by 12% (assumes the dividends are paid for a two-year period). Any amount of fractional shares of common stock to be received by each selling stockholder upon payment of dividends has been rounded up to the nearest whole number. Note, however, that the exact number of dividend shares cannot be determined until the date the dividend is declared. Notwithstanding the foregoing, in order to comply with Rule 415 of the Securities Act, the total number of shares of the Registrant s common stock that each of the selling stockholders will be permitted to resell under this Registration Statement will not exceed 10% of the Company s public float held by non-affiliates, or approximately 1,300,000 shares. Consequently, although certain of the selling stockholders listed in the Selling Stockholders Table contained herein would be entitled to receive dividend shares, the Company will not be registering such shares for resale under this Registration Statement since doing so would cause such selling stockholders to exceed the 10% limitation discussed above.

(4) Estimated solely for purposes of calculating the registration fee pursuant to Securities Act Rule 457(c), based on the average of the bid and asked price of the Registrant s common stock of $0.60 on June 25, 2007, on the OTCBB.

(5) The Registrant previously paid $830.58 in registration fees originally intending to register a larger number of shares than the 24,913,225 shares being registered herein. Of this amount, $550.25 was paid on April 26, 2007 upon the initial filing of the Registration Statement. An additional $280.33 was paid on June 29, 2007 upon the filing of Amendment No. 1 to the Registration Statement. Due to the fact that the Registrant has overpaid the required registration fee, it will be entitled to a credit for the difference, which is equal to $334.37 ($830.58 - $496.21).

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 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.

SUBJECT TO COMPLETION DATED November 16, 2007

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission (the SEC) 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 state where the offer or sale is not permitted.

PROSPECTUS

ANDOVER MEDICAL, INC.

24,913,225 Shares of Common Stock

This prospectus relates to the public offering of up to 24,913,225 shares of our common stock issuable upon conversion and exercise of securities sold to accredited investors in a private equity offering. The shares will be offered from time to time for the account of the stockholders identified in the Selling Stockholders section of this prospectus.

The shares may be offered in transactions conducted on the Over-The-Counter Bulletin Board (OTCBB), which is maintained by the NASD, in privately negotiated transactions or through a combination of such methods. The shares may be sold at prices relating to the prevailing market prices, at privately negotiated prices or at other prices, which may change from time to time and from offer to offer.

Our common stock is currently traded on the OTCBB, under the symbol ADOV. On November 15, 2007, the closing price of our common stock, as reported by the OTCBB, was $0.40 per share.

The shares being offered pursuant to this prospectus involve a high degree of risk. Persons should not invest unless they can afford to lose their entire investment. You should carefully read the Risk Factors section commencing on page 8 for information that should be considered in determining whether to purchase any of the shares.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is November 16, 2007

You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement. No one has been authorized to provide you with different information. The shares are not being offered in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of such documents.

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). As such, we file annual, quarterly and special reports and other documents with the SEC. These reports, proxy statements and other documents may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, DC 20549. You may also obtain copies of such material by mail from the public reference facilities of the SEC s Washington, DC offices, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on their public reference facilities. In addition, the SEC maintains a web site that contains reports, proxy and information statements and other information regarding companies, including us, that file electronically with the SEC. The address of the SEC s web site is http://www.sec.gov.

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INTRODUCTORY COMMENTS

Use of Names

Throughout this prospectus, the terms we, us, our, registrant, Company and AMI refer to Andover Medical, Inc.

SUMMARY INFORMATION

Business

AMI is a publicly traded company (OTCBB:ADOV) that was formed to engage in the business of distributing procedure specific durable medical equipment (DME) and services segments of the orthopedic, podiatric, and urological physician care markets in the United States. DME is a specific type of medical equipment prescribed by physicians for home use that provides therapeutic benefits or helps patients perform tasks they would otherwise not be able to accomplish. The Company intends to establish a nationwide distribution network and plans to offer physicians the largest selection of competitively priced brand-name DME, and urodynamic diagnostic and treatment products.

Orthopedics, to a lesser degree, urology and podiatry are among the fastest growing segments in healthcare that utilize DME products and services. The graying of the population and the increase in the active physical lifestyle of seniors, among other factors, play key roles in this growth. These DME products are most significantly used by baby boomers and seniors age 65 and over. According to the U.S. Department of Health and Human Services this senior demographic, which is expanding rapidly both in size and in its need for services, has been increasing from approximately 35 million people in 2000, to an estimated 40.2 million by 2010, and eventually to an estimated 71 million people by 2030, representing approximately 20 percent of the U.S. population.

On August 31, 2006, AMI, formerly known as Snow & Sail Sports, Inc., entered into a reorganization agreement pursuant to which the Company spun off its existing business (including all of its assets and liabilities) which involved providing one-day ski trips within the New England area, to former management and changed its corporate name and business to that of the Company. Pursuant to the Reorganization Agreement, the Company issued an aggregate of 10,000,000 restricted shares of its Common Stock in connection with the transaction to management and certain affiliates.

All of the former officers and directors of the Company prior to the Transaction, resigned and were replaced by Edwin A. Reilly and Robert G. Coffill, Jr.; Mr. Reilly was appointed the President, Chief Operating Officer, acting Chief Financial Officer, and Secretary of the Company, and Mr. Coffill was elected to serve, at that time, as its sole director.

Business Strategy

The business strategy of AMI revolves around acquiring local DME companies with sales of between $1 million and $10 million per annum in the markets of orthopedics, podiatry, and, to a lesser degree, urology. We will then consolidate them and build a single source provider of DME and incontinence treatment products. On May 4, 2007, AMI completed the acquisition of Ortho-Medical Products, Inc., a New York based full-service company specializing in procedure specific orthopedic DME, respiratory equipment, and orthotics and prosthetics. On May 11, 2007, AMI completed the acquisition of Rainier Surgical Incorporated, headquartered in Auburn, Washington, which specializes in the sales, service, distribution and marketing of orthopedic DME. AMI is in negotiations to acquire other potential target companies.

Successful growth of AMI is predicated on its ability to acquire these already existing companies in a roll-up and take advantage of the Company s larger scale to:

a) add on new acquisitions;

b) secure purchasing efficiencies;

c) contract for innovative new products; and

d) implement management and operational efficiencies.

AMI believes the distribution channel for these healthcare segments is currently fragmented and inefficient, and that operating as a local independent distributor is difficult today for various reasons, including the following:

(a) small independent operations have a difficult time trying to gain access to innovative (high margin) products for distribution;

(b) negotiations for products to reduce the cost of goods sold is very limited; therefore, margin enhancement is difficult;

(c) back office expenses are spread over a very limited revenue base; and

(d) little opportunity exists for a viable exit strategy.

AMI intends to offer extensive product offerings, including postoperative pain management products, orthopedic devices, a full range of soft goods and functional knee braces, and disposables. The Company s products and services are expected to offer solutions to create overall practice management efficiencies for health care providers.

AMI has identified companies that target certain procedures such as post surgical care for Anterior Cruciate Ligament (ACL) Surgery, and knee/hip replacement. These companies offer a comprehensive array of products to aid in the recovery for a particular procedure. This provides the physician with a single source solution to his/her postoperative needs.

AMI intends to establish a unified nationwide distribution network by acquiring and consolidating in a roll-up, healthcare companies that offer physicians both a convenient and administratively efficient way to offer patients a large selection of competitively priced, brand-name, DMEs and treatment products. AMI intends to provide an attractive option for the physician customer base. These products, delivered at point of service outlets such as physicians offices, clinics/hospitals, nursing facilities, patients homes, and retail outlets, are often prescribed by physicians and physical therapists and qualify for third party reimbursement from insurance companies, Medicare, Medicaid, etc..

Our medical products and services consolidation model mirrors trends already taking place in many industries. Currently there are several public companies that have concentrated on consolidating different segments of the DME market:

- *Respiratory care* Lincare, Apria
- *Orthotics and Prosthetics (O&P)* Hanger Orthopedic Group
- *Manufacturing of bracing and orthopedic soft goods* DJ Orthopedics, OSSUR, Orthofix

One of the services AMI currently provides for physicians is the *stock and bill* method of inventory control and payment, eliminating the need to have patients referred to a separate orthopedics and prosthetics facility to purchase DME products prescribed by the physician. Under such an arrangement, AMI handles inventory control and billing, while the physicians practices derive the benefits of having

products available on site with little administrative involvement. In addition, AMI will offer products directly to the physicians and patients.

Please see the Risk Factors section commencing on page 8 for more information concerning the risks of investing in our company.

Summary Financial Information

The summary financial information set forth below is derived from the more detailed audited and unaudited financial statements of the Company appearing elsewhere in this prospectus. This information should be read in conjunction with such financial statements, including the notes to such financial statements.

Statement of Operations Data:

	Nine Months Ended September 30, 2007 Unaudited	July 13, 2006 (inception) to December 31, 2006
Net Revenue	$ 3,922,973	$ 0
Costs of revenue	1,616,508	0
Gross profit	2,306,465	0
General and administrative expenses (including stock-based compensation expense of $1,108,793, and $220,680 respectively)	4,472,851	608,903
Operating loss	(2,166,386)	(608,903)
Interest expense	(125,892)	(115,395)
Other expense	(2,165,742)	
Interest income	76,236	849
Loss before income tax expense	(4,381,784)	(723,449)
Provision for income taxes	19,064	6,233
Net loss	$ (4,400,848)	$ (729,682)
Preferred dividend	(4,437,825)	2,389,148
Net loss available to common shareholders	$ (8,838,673)	(3,118,830)
Net loss per share:		
Basic and diluted	$ (0.16)	$ (.03)
Basic and diluted available to common shareholders	$ (0.33)	(.15)
Weighted average number of common shares outstanding:		
Basic and diluted	27,133,832	20,857,884

	At September 30, 2007 Unaudited	Restated December 31, 2006 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,176,430	$ 2,377,572
Accounts receivable, net of allowance for doubtful accounts of $892,901 and $0 at 9/30/2007 and 12/31/2006, respectively	2,469,992	0
Inventories	1,115,237	0
Prepaid expenses and other current assets	69,330	133,974
Total current assets	4,830,989	2,511,546
Property and equipment, net	821,827	56,069
Goodwill	3,785,739	0
Intangible Assets, net	1,961,842	0
Deposits and other assets	137,792	8,893
Total assets	$ 11,538,189	$ 2,576,508
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,121,483	$ 165,339
Current portion of long-term debt	145,393	0
Notes Payable, net of $0 and $132,822 discount as of 9/30/2007 and 12/31/2006, respectively		27,178
Total current liabilities	3,266,876	192,517
Long term liabilities:		
Long-term debt, less current portion	88,495	
Deferred items	44,774	
Bank loan	1,604,758	
Total long-term liabilities	1,738,027	
Total liabilities	$ 5,004,903	192,517
Shareholders equity:		
Preferred stock, $.001 par value; 1,000,000 shares authorized, 7,828 and 3,203 outstanding at of 9/30/2007 and 12/31/2006, respectively	8	3
Common stock, $.001 par value; 300,000,000 shares authorized, 29,419,085 and 24,556,000 outstanding at of 9/30/2007 and 12/31/2006, respectively	29,419	24,556
Additional paid-in capital	18,461,361	5,490,762
Stock subscription receivable		(12,500)
Accumulated deficit	(11,957,502)	(3,118,830)
Total shareholders equity	6,533,286	2,383,991
Total liabilities and shareholders equity	$ 11,538,189	$ 2,576,508

WHERE YOU CAN FIND MORE INFORMATION

Our common stock is traded on the OTCBB under the symbol ADOV. Material filed by us can also be inspected and copied at the offices of the NASD, located at 9509 Key West Avenue, Rockville, MD 20850-3329.

We will distribute annual reports to our stockholders, including financial statements examined and reported on by independent certified public accountants. We also will provide you without charge, upon your request, with a copy of any or all reports and other documents we file with the SEC, as well as any or all of the documents incorporated by reference in this prospectus or the registration statement we filed

with the SEC registering for resale the shares of our comment stock being offered pursuant to this prospectus, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents. Requests for such copies should be directed to Edwin A. Reilly, the Company s Chief Executive Officer, at Andover Medical, Inc., 510 Turnpike Street, Ste. 204, N. Andover, MA 01845; telephone: (978) 557-1001; fax: (978) 557-1004; URL: www.andovermedical.com.

We have filed a registration statement on Form SB-2 with the SEC registering under the Securities Act the common stock that may be distributed under this prospectus. This prospectus, which is a part of such registration statement, does not include all of the information contained in the registration statement and its exhibits. For further information regarding us and our common stock, you should consult the registration statement and its exhibits.

Statements contained in this prospectus concerning the provisions of any documents are summaries of those documents, and we refer you to the documents filed with the SEC for more information. The registration statement and any of its amendments, including exhibits filed as a part of the registration statement or an amendment to the registration statement, are available for inspection and copying as described above.

RISK FACTORS

The securities offered hereby are speculative, involve a high degree of risk and should only be purchased by persons who can afford to lose their entire investment. Prospective purchasers should carefully consider, among other things, the following risk factors relating to the business of the Company and this offering prior to making any investment. These risk factors are summary in nature and are not intended to be exhaustive or set forth all the possible risks and uncertainties that may be associated with purchasing or owning this investment. You are strongly urged to consult with professional financial advisors, accountants, and lawyers in evaluating this investment and making an independent and informed decision about whether or not to invest your money in this offering.

RISKS RELATED TO OUR BUSINESS

We recently went public and have a limited operating history upon which you can base an investment decision.

We became a public company on August 31, 2006 via a reverse merger. Consequently, the Company has a very limited operating history upon which you can make an investment decision, or upon which we can accurately forecast future sales. You should, therefore, consider us subject to all of the business risks and uncertainties associated with a new business. The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered in connection with the formation and initial operations of a new and unproven business.

Our business strategy depends upon our ability to complete and manage acquisitions of other companies.

Our business strategy is to grow through acquisitions, which depends on our ability to identify, negotiate, complete and integrate suitable acquisitions. See Summary Information Business Strategy. Even if we complete acquisitions we may experience:

- difficulties in integrating any acquired companies, personnel and products into our existing business;
- delays in realizing the benefits of the acquired company or products;
- significant demands on the Company s management, technical, financial and other resources;
- diversion of our management s time and attention to unexpected problems;
- higher costs of integration than we anticipated;
- unanticipated liabilities; and/or
- difficulties in retaining key employees of the acquired businesses who are necessary to manage these acquisitions.

We have no assurance that our proposed acquisition strategy will be successful.

Our business strategy is to expand our operations through strategic acquisitions. We are currently engaged in acquiring certain orthopedic, podiatric, and related service entities. While we acquired two operating companies in May 2007, we may not be successful in our overall acquisition strategy for any number of reasons. These reasons include, but are not limited to, our ability to obtain funding in excess of the approximately $7,800,000 in gross proceeds we recently raised in private equity financings through September 11, 2007 (collectively, the Offering); complete the necessary due diligence, to our satisfaction; agree on all material terms of definitive purchase agreements; obtain audited financial statements consistent with the unaudited financial statements, or otherwise consummate the acquisition of any other entities. If we are unable to complete additional acquisitions in the orthopedic, and podiatric markets we will be unable to achieve our business strategy of becoming a single source of DME in these fields.

We may not be able to manage proposed acquisitions and achieve profitability.

We face substantial challenges with both acquisitions made to date and operational acquisitions. These include the integration of the acquired entities with the operations, technologies and management of the Company and the attendant risks associated with such acquisitions, including possible unanticipated liabilities, unanticipated costs, diversion of management attention and loss of personnel.

We cannot assure you that we will successfully integrate or profitably manage any acquired businesses, that our continued business will achieve sales levels, profitability, efficiencies or synergies that justify the acquisitions, or that the acquisitions will result in increased earnings for us in any future period. Successful integration of the Company s operations will depend on, among other things, our ability to attract, hire and retain skilled management and other personnel, none of which can be assured. To manage growth effectively, we will need to invest in development of enhancements to existing services, implement operational, financial and management information systems, procedures and controls, and integrate our personnel and operations with those of an acquired company. We may not be able to manage the combined operations effectively, and failure to do so could have a material adverse effect on the Company s business, financial condition and/or operating results.

In the case of debt funding, there can be no assurance that we will have sufficient income from operations of such acquired companies to satisfy the debt payments, which may then be adversely affected.

We have only limited working capital and the proceeds of the Company s private financing to date will not be sufficient, without additional financing, to complete additional acquisitions contemplated herein.

We raised gross proceeds of approximately $7.8 million, from the equity offerings with the net proceeds used for working capital and acquisitions. The Company anticipates, however, that based on its current proposed plans and assumptions, it will have to raise additional financings to meet its anticipated working capital needs and cash needs for future acquisitions. There can be no assurance that the Warrants issued in the Offering will be exercised. The Company has no binding arrangements with respect to additional financings. Furthermore, it is not anticipated that existing security holders will provide any of the Company s future financing requirements. In addition, while the Company is negotiating to obtain debt financing for acquisitions such financing may not be available to the Company, if so required, on commercially reasonable terms, or at all. Any inability to obtain additional financing when needed and on acceptable terms could have a material adverse effect upon the Company s operations, including the possibility of requiring the Company to curtail its acquisition strategy.

We may be subject to potential litigation claims in connection with the appointment of Frank Magliochetti as the Company s Chairman of the Board and Chief Executive Officer from December 31, 2006 to March 9, 2007 that could be costly and time consuming and could divert our management and key personnel from business operations.

In connection with the sale of his prior business, Frank Magliochetti, the Company s former Chairman of the Board and Chief Executive Officer (who served in that capacity from December 20, 2006 until his resignation on March 9, 2007), entered into a non-compete agreement with Otto Bock HealthCare L.P. (Otto Bock). Any litigation claims against the Company concerning that non-compete agreement could be costly and time consuming and could divert our management and key personnel from business operations. The non-compete agreement provides that Mr. Magliochetti may not engage in any business competitive with the business of Otto Bock for a period of four years. In February 2007, the Company was advised by the attorneys for Otto Bock that the Company and its CEO, Edwin Reilly, acted in concert with Mr. Magliochetti in breach of his non-compete agreement. Otto Bock claims, among other things, that the Company plans to compete directly in the market for continuous passive motion products and services and in the market for pain management braces, and is doing business with prohibited customers. The Company

and Messrs. Magliochetti and Reilly deny any and all wrongdoing of these claims. In view of Mr. Magliochetti s resignation and his non-disclosure of any confidential information prior to such resignation, the Company does not believe this claim has any merit. Although the Company and Mr. Magliochetti have reached an agreement in principle with Otto Bock to resolve the matter, there can be no assurance such settlement will be finalized and that the Company will not be sued by Otto Bock, which could have a material adverse effect on the Company s operations.

Our financial statements have been prepared assuming that the Company will continue as a going concern.

Our audited financial statements for the fiscal year ended December 31, 2006 have been prepared assuming the Company will continue as a going concern. As discussed in Note 9 to the financial statements for the period ended December 31, 2006, the Company had not yet generated revenues and was still developing its planned principal operations. These factors raise substantial doubt about the Company s ability to continue as a going concern. Our independent registered public accounting firm has included an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern in their audit report for the fiscal year ended December 31, 2006.

We rely heavily on our relationships with orthopedic professionals, agents and distributors for marketing our services and our failure to maintain these relationships could adversely affect our business.

The sales of our services depend significantly on the prescription or recommendation of such services by orthopedic and other healthcare professionals. Our future success depends on our ability to maintain good relations between such healthcare professions and the management of the companies we acquire. Our failure to maintain good relationships could have an adverse effect on our business.

We operate in a very competitive business environment.

The non-operative orthopedic and podiatry markets are highly competitive and fragmented. Our competitors include several large, diversified general orthopedic products companies and numerous smaller niche companies. Some of our competitors are included in our vendor base. We may not be able to offer products or services similar to or more desirable than our competitors, or at a price comparable to that of our competitors. We may be unable to compete if we fail to develop, license or acquire and market new products and new services enhancements. Many of our competitors have greater financial resources, more widely accepted products, stronger name recognition and larger sales and/or distribution networks than we do.

Our quarterly operating results are subject to substantial fluctuations and you should not rely on them as an indication of our future results.

We do not have an operating history of our own. Until we are able to integrate our initial acquisitions, which will take at least one year, our quarterly operating results are expected to vary significantly. Our results will depend upon a combination of factors, many of which are beyond our control. These factors include:

- our ability to meet the demand for our services;
- our ability to develop, introduce and market new and enhanced products and versions of our services on a timely basis;
- the impact of any acquisitions that occur in a quarter;
- changes in pricing policies by us and our competitors and reimbursement rates by third-party payors, including government healthcare agencies and private insurers;

- changes in the treatment practices of orthopedic and podiatry clinics and their allied healthcare professionals; and

- the timing of significant orders and shipments.

Accordingly, our quarterly sales and operating results may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful and should not be relied upon as indications of future performance. We cannot assure you that our sales will increase or be sustained in future periods or that we will be profitable in any future period.

Our business plan relies on certain assumptions for the market for our services, which, if incorrect, may adversely affect our profitability.

We believe that various demographics and industry specific trends will help drive growth in the rehabilitation markets, including:

- a growing elderly population with broad medical coverage, increased disposable income and longer life expectancy;

- a growing emphasis on physical fitness, leisure sports and conditioning, which has led to increased injuries, especially among women; and

- the increasing awareness and use of non-invasive devices for prevention, treatment and rehabilitation purposes.

These demographics and trends are beyond our control. The projected demand for our services could materially differ from actual demand if our assumptions regarding these factors prove to be incorrect or do not materialize or if alternative treatments to those offered by our services gain widespread acceptance. Any one of these outcomes could have an adverse effect on our operations.

We have limited suppliers for some of our products which makes us susceptible to supply shortages and could disrupt our operations.

We do not manufacture the products that we provide to our clients. Instead, we rely on manufacturers and other third party suppliers for these products. If any of these parties are unable or unwilling to supply these products to us, we would be unable to distribute our products until a replacement supplier could be found. We cannot guarantee that a replacement supplier could be found on reasonable terms or in a timely manner. Any interruption in our ability to distribute our products could cause our business to be unsuccessful and the value of investors investment in us may decline.

We may be adversely affected if we lose the services of any member of our senior management, our board of directors, or key employees.

We are dependent on the continued services of our senior management team and Board of Directors who are expected to make significant contributions to our growth and success. The loss of any one or more of these persons could have a material adverse effect on us.

We do not believe the departure of Frank Magliochetti will negatively impact our ability to carry out our acquisition strategy. As reflected by the durable medical equipment and specifically orthopedic devices and soft goods experience of Edwin Reilly set forth below under Management, the Board of Directors fully believes that Mr. Reilly will be able to carry out our business strategy in order that we may succeed. Nevertheless, in the event that we are able to complete future acquisitions, the Company will be dependent on its ability to retain the services of management of such companies. In addition, we could be adversely affected if any key employees of acquired companies who do not have employment nor non-competition agreements with us, went to work for one of our competitors. Our future success depends on our ability to

identify, attract, train and motivate other highly skilled personnel. Failure to do so may adversely affect future results.

Recent changes in coverage and reimbursement policies for our products by Medicare and third-party payors or reductions in reimbursement rates for our products could adversely affect our business and results of operations.

Products are sold by our acquisition companies through clinics and physicians who may receive reimbursement for the cost of our products from private third-party payors, Medicare, Medicaid and other governmental programs. Our ability to sell our products successfully depends in part on the purchasing and practice patterns of clinics and physicians, who are influenced by cost containment measures taken by third-party payors. Limitations or reductions in third-party reimbursement for our products can have a material adverse effect on our sales and profitability.

Congress and state legislatures consider reforms in the healthcare industry that may modify reimbursement methodologies and practices, including controls on healthcare spending of the Medicare and Medicaid programs. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what effect the proposals would have on our business. Many private health insurance plans model their coverage and reimbursement policies after Medicare policies. Congressional or regulatory measures that reduce Medicare reimbursement rates could cause private health insurance plans to reduce their reimbursement rates for our products, which could have an adverse effect on our ability to sell our products or cause our orthopedic professional customers to prescribe less expensive products introduced by us and our competitors.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or Medicare Modernization Act, mandated a number of changes in the Medicare payment methodology and conditions for coverage of orthotic devices and durable medical equipment. These changes include a freeze in payments for durable medical equipment from 2004 through 2008, a payment freeze for orthotic devices from 2004 through 2006, competitive bidding requirements, and new clinical conditions for payment and quality standards. The changes affect our products generally, although specific products may be affected by some but not all of the Medicare Modernization Act s provisions.

Under competitive bidding, which will be phased in beginning in 2007, Medicare will change its approach to reimbursing certain items and services covered by Medicare from the current fee schedule amount to an amount established through a bidding process between the government and suppliers. Competitive bidding may reduce the number of suppliers providing certain items and services to Medicare beneficiaries and the amounts paid for such items and services.

Also, Medicare payments in regions not subject to competitive bidding may be reduced using payment information from regions subject to competitive bidding. Any payment reductions or the inclusion of certain of our orthotic devices in competitive bidding, in addition to the other changes to Medicare reimbursement and standards contained in the Medicare Modernization Act, could have a material adverse effect on our results of operations.

In addition, on February 11, 2003, the Centers for Medicare and Medicaid Services, or CMS, the agency responsible for implementing the Medicare program, made effective an interim final regulation implementing inherent reasonableness authority, which allows adjustments to payment amounts for certain items and services covered by Medicare when the existing payment amount is determined to be grossly excessive or grossly deficient. The regulation lists factors that may be used to determine whether an existing reimbursement rate is grossly excessive or grossly deficient and to determine what a realistic and equitable payment amount is.

Also, under the regulation, a payment amount will not be considered grossly excessive or grossly deficient if an overall payment adjustment of less than fifteen percent would be necessary to produce a

realistic and equitable payment amount. The regulation remains in effect after the Medicare Modernization Act, although the new legislation precludes the use of inherent reasonableness authority for devices subject to competitive bidding. When using the inherent reasonableness authority, CMS may reduce reimbursement levels for certain items and services, which could have a material adverse effect on our results of operations.

We cannot assure you that third-party reimbursement for our products will continue to be available or at what rate such products will be reimbursed. Failure by users of our products to obtain sufficient reimbursement from third-party payors for our products or adverse changes in governmental and private payors policies toward reimbursement for our products could have a material adverse effect on our results of operations.

Healthcare reform, managed care and buying groups have put downward pressure on our prices.

A further result of managed care and the related pressure on costs has been the advent of buying groups in the United States. Such buying groups enter into preferred supplier arrangements with one or more manufacturers of orthopedic or other medical products in return for price discounts. The extent to which such buying groups are able to obtain compliance by their members with such preferred supplier agreements varies considerably depending on the particular buying groups. We believe that our ability to maintain our existing arrangements will be important to our future success and the growth of our revenues.

In addition, we may not be able to obtain supplier commitments from major vendors, in which case we could lose significant potential sales. On the other hand, if we receive preferred supplier commitments from particular vendors which do not deliver high levels of compliance, we may not be able to offset the negative impact of lower per unit prices or lower margins with any increases in unit sales or in market share.

Proposed laws that would limit the types of orthopedic professionals, who can fit, sell or seek reimbursement for our products, could, if adopted, adversely affect our business.

In response to pressure from orthopedic practitioners, Congress and state legislatures have from time to time considered proposals that limit the types of orthopedic professionals who can fit and/or sell our orthotic device products or who can seek reimbursement for them. Several states have adopted legislation that imposes certification or licensing requirements on the measuring, fitting and adjusting of certain orthotic devices. Some of these laws have exemptions for manufacturers representatives. Other laws apply to the activities of such representatives. Other states may be considering similar legislation. Such laws could limit our potential customers in those jurisdictions in which such legislation or regulations are enacted by limiting the measuring and fitting of these devices to certain licensed individuals. We may not be successful in opposing their adoption and, therefore, such laws could have a material adverse effect on our business.

In addition, efforts have been made to establish such requirements at the federal level for the Medicare program. Most recently, in 2000 Congress passed the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). BIPA contains a provision requiring as a condition for payment by the Medicare program that certain certification or licensing requirements be met for individuals and suppliers furnishing certain, but not all, custom-fabricated orthotic devices. CMS is in the process of implementing this requirement, and we cannot predict the effect its implementation or implementation of other such laws will have on our business.

We are subject to numerous federal and state regulations, noncompliance with which could result in significant penalties that could have a material adverse effect on our business.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws and physician self-referral laws (commonly known as Stark laws). Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs and TRICARE, which could have a material adverse effect on our business.

Because of the far-reaching nature of these laws, we may be required to alter one or more of our practices. Healthcare fraud and abuse regulations are complex and even minor, inadvertent irregularities in submissions can potentially give rise to claims that a fraud and abuse law or regulation has been violated. Any violations of these laws or regulations could have a material adverse effect on our business, financial condition and results of operations. If there is a change in law, regulation or administrative or judicial interpretations, we may have to change our business practices or our existing business practices could be challenged as unlawful.

Audits or denials of claims by government agencies could reduce our revenue or profits.

As part of the business structure of our acquired companies, we submit claims and receive payments directly from Medicare, Medicaid programs and private payors. Therefore, we are subject to extensive government regulation, including requirements for maintaining certain documentation to support our claims. Medicare contractors and Medicaid agencies periodically conduct pre- and post-payment review and other audits of claims, and will be under increasing pressure to scrutinize more closely healthcare claims and supporting documentation generally. We periodically could receive requests for documentation during the governmental audits of individual claims. We cannot assure that such review and/or similar audits of our claims will not result in material delays in payment, as well as material recoupment or denials, which could reduce net revenues and profitability, nor the exclusion from participation in the Medicare and Medicaid programs or from participation on the provider panel of a private payor. Private payors from time to time conduct similar reviews and audits.