Andover Medical, Inc.
Form S-1/A
May 07, 2008

As filed with the Securities and Exchange Commission on May 7, 2008

Registration Number 333-149794

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT No 2

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ANDOVER MEDICAL, INC.

(Exact name of registrant as specified 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, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Edwin A. Reilly

Chief Executive Officer

Andover Medical, Inc.

510 Turnpike Street, Ste. 204

North Andover, MA 01845

(978) 557-1001

(Name, address including zip code, and telephone number, including area code, 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 the effective date of this Registration Statement.

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: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	**o**	Accelerated filer	**o**
Non-accelerated filer	**o**	Smaller reporting company	**x**
(Do not check if a smaller reporting company)	**o**		

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to Be registered(1)	Proposed maximum offering		Proposed maximum		Amount of registration fee	
Common stock, par value $.001 per share, issuable upon conversion of Series B Preferred Stock(3)	1,428,500	$	0.45 (2)	$	642,825	$	25.26
Common stock, par value $.001 per share, issued pursuant to a settlement with Otto Bock Healthcare L.P.(4)	5,300,353	$	0.45 (2)	$	2,385,159	$	93.74
Common stock, par value $.001 per share held by the 6 former stockholders of Ortho-Medical Products, Inc.(5)	3,300,000	$	0.45 (2)	$	1,485,000	$	58.36
Common stock, par value $.001 per share held by the 3 former stockholders of Rainier Surgical Incorporated(6)	1,472,995	$	0.45 (2)	$	662,848	$	26.05
Total	11,501,848	$	0.45 (2)	$	5,175,832	$	203.41 (7)

(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 $0.45 on March 17, 2008, on the Over-the-Counter Bulletin Board (OTCBB).

(3) These shares are issuable to Vicis Capital Master Fund (Vicis), an institutional investor in our September 2007 private equity offering (Series B Offering).

(4) On December 28, 2007 the Company entered into a Global Settlement Agreement and Release (The Global Settlement) with Otto Bock Healthcare L.P., a Minnesota limited partnership (Otto Bock), upon the execution of the Global Settlement, an aggregate of 5,300,353 shares were issued to Otto Bock.

(5) On May 4, 2007, the Registrant completed the acquisition of Ortho-Medical Products, Inc. and issued these shares to the former stockholders of OMI. See the Registrant s Report on Form 8-K for May 4, 2007.

(6) On May 11, 2007, the Registrant completed the acquisition of Rainier Surgical Incorporated (Rainier) and issued these shares to the former shareholders of Rainier. See the Registrant s Report on Form 8-K for May 11, 2007.

(7) This amount was paid on March 18, 2008 upon the filing of this Registration Statement No. 333-149794.

The registrant shall amend 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 that 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.

Pursuant to Rule 429(a), under the Act this registration statement also serves as a post-effective amendment to the Company s Registration Statement of Form SB-2 (No. 333-142387), which relates to an aggregate of 24,913,225 shares of common stock which were registered thereunder, and which upon the effective date of this registration statement shall be combined with this registration statement under which an additional 11,501,848 shares were registered or an aggregate of 36,415,073 shares.

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.

SUBJECT TO COMPLETION DATED MAY 7, 2008

PROSPECTUS

ANDOVER MEDICAL, INC.

36,415,073 Shares of Common Stock

This prospectus relates to the public offering of up to 36,415,073 shares of our common stock consisting of (i) 12,842,644 and 12,890,851 shares issuable upon conversion and exercise of preferred stock and warrants, respectively, sold to accredited investors in private equity offerings of our Series A and Series B Preferred Stock (each individually referred to as the Series A Offering and the Series B Offering, and collectively referred to as the Equity Offerings); (ii) 608,230 shares issuable in payment of dividends for two years on Series A Preferred Stock (iii) 5,300,353 shares issued pursuant to a settlement agreement with Otto Bock Healthcare L.P.; (iv) an aggregate of 3,300,000 shares issued to the former stockholders of Ortho Medical Products, Inc., and (v) an aggregate of 1,472,995 shares issued to the former stockholder of Rainier Surgical Incorporated. 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 May 6, 2008, the closing price of our common stock, as reported by the OTCBB, was $0.12 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 **9** 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.

Pursuant to Rule 429 under the Securities Act of 1933, as amended (the Securities Act), this Prospectus will be a combined prospectus with one dated December 19, 2007, which relates to an aggregate of 24,913,225 shares of common stock registered under Registration Statement No. 333-142105. Pursuant to Rule 429(b), this registration statement will act as a post-effective amendment to the earlier one upon the effective date of this registration statement.

The date of this Prospectus is_____, 2008.

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.

TABLE OF CONTENTS

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 Background

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 and podiatric 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 treatment products.

Orthopedics 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.

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 and podiatry. We will then consolidate them and build a single source provider of DME. 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 sale, service, distribution and marketing of orthopedic DME.

On March 4, 2008, AMI announced that its Board of Directors is in discussions with three (3) other health care companies to merge. The merged companies would have revenues in excess of four (4) times the current revenues of Andover. Although negotiations for two previously announced proposed acquisitions have been terminated, the Company has a funding commitment for the potential merger with these three (3) health care companies.

There can be no assurance that the Company will be successful in its efforts to complete the proposed merger or that the above referenced funding commitment will continue to remain available.

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; and

• 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 9 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:

	Year Ended December 31, 2007 Audited	Year Ended December 31, 2006 Audited
Net Revenue	$ 6,199,539	$ 0
Costs of revenue	2,588,993	0
Gross profit	3,610,546	0
General and administrative expenses (including stock-based compensation expense of $1,217,404 and $220,680, respectively)	6,436,184	608,903
Operating loss	(2,825,638)	(608,903)
Interest expense	(169,301)	(115,395)
Extraordinary expense	(2,580,537)	0
Extraordinary income	4,409	0
Interest income	82,292	849
Loss before income tax expense	(5,488,775)	(723,449)
Provision for income taxes	46,664	6,233
Net loss	$ (5,535,439)	$ (729,682)
Preferred dividend	(4,437,825)	(2,389,148)
Net loss available to common shareholders	$ (9,973,264)	(3,118,830)
Net loss per share:		
Basic and diluted	$ (.20)	$ (.03)
Basic and diluted available to common shareholders	$ (.36)	(.15)
Weighted average number of common shares outstanding:		
Basic and diluted	27,876,253	20,857,884

	At December 31, 2007 Audited	Restated December 31, 2006 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 560,375	$ 2,377,572
Accounts receivable, net of allowance for doubtful accounts of $1,230,842	2,367,813	0
Inventories	938,287	0
Prepaid expenses and other current assets	123,215	133,974
Total current assets	3,989,690	2,511,546
Property, plant and equipment:		
Property and equipment, gross	1,549,779	62,122
Less accumulated depreciation	800,958	6,053
Total property, plant and equipment, net	748,821	56,069
Goodwill	4,032,089	0
Intangible Assets, net of accumulated amortization of $317,633	1,791,225	0

Deposits and other assets	133,019	8,893

Total other assets	$	5,956,333		8,893
Total assets	$	10,694,844	$	2,576,508
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	$	1,765,079	$	165,339
Bank line of credit		1,604,758		
Current portion of long-term debt		145,393		0
Notes Payable, net of $132,822 discount				27,178
Total current liabilities		3,515,230		192,517
Long term liabilities:				
Long-term debt, less current portion		78,263		
Deferred items		49,670		
Total long-term liabilities		127,933		
Total liabilities	$	3,643,163		192,517
Shareholders equity:				
Preferred stock, $.001 par value; 1,000,000 shares authorized, 7,813 and 3,188 outstanding, respectively		8		3
Common stock, $.001 par value; 300,000,000 shares authorized, 34,846,224 shares issued and outstanding at 12/31/2007; 24,556,000 shares issued and outstanding at 12/31/2006		34,846		24,556
Additional paid-in capital		20,108,921		5,490,762
Stock subscription receivable				(12,500)
Accumulated deficit		(13,092,094)		(3,118,830)
Total shareholders equity		7,051,681		2,383,991
Total liabilities and shareholders equity	$	10,694,844	$	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 James A. Shanahan, the Company s Chief Financial 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 S-1 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 AND THIS OFFERING

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. We have been unable to complete several subsequent acquisitions for various reasons including, but not limited to, our inability to complete the necessary due diligence to our satisfaction; failure to reach agreement on all material terms of definitive purchase agreements; obtain audited 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 recently announced our negotiations to merge with three other companies.

shareholders.

We have only limited working capital and we require additional financing, to fund its ongoing operations.

We raised gross proceeds of approximately $7.8 million, from private equity offerings through September 11, 2007 (collectively, the Equity Offerings), with the net proceeds used for working capital and acquisitions. The Company s operating subsidiaries are not generating sufficient cash flow to offset the parent Company s expenses. Therefore, the Company needs to raise additional financings to meet its anticipated working capital needs and cash needs. While the Company has an equity funding commitment for acquisitions and/or a merger, it does not have sufficient funds for its ongoing operations. 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 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, 2007 have been prepared assuming the Company will continue as a going concern, as discussed in Note 7 to the financial statements for the period ended December 31, 2007. 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, 2007.

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 have an adverse impact on the Company.

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 fully integrate our initial acquisitions, 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. 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, the Company also depends on its ability to retain the services of management of our acquired 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.

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.

Undisclosed liabilities associated with our reorganization.

There may be undisclosed liabilities that were either misrepresented to us or that we were unable to discover prior to the reorganization and the spin off of the Company s former business, which involved providing one-day ski trips within the New England area. The former principal of Snow & Sail Sports, Inc. could fail to indemnify the Company against potential liabilities associated with the former business in breach of the terms of the reorganization agreement. Although we would fully pursue all legal recourse against such persons, there can be no assurance we will be held harmless, in which case our operations may be adversely affected.

Our principal stockholder has the ability to control almost all matters of the Company.

Meyers Associates, LP, our financial advisor and a FINRA member firm, and its president own 3,000,000 shares of Common Stock (with options to acquire an additional 4,184,791 shares pursuant to a unit purchase option), and other principal stockholders of the Company own an additional approximately 13,135,000 shares, all of which are restricted. These 20,319,791 shares beneficially represent approximately 45% of the issued and outstanding shares of Common Stock of the Company as of March 1, 2008.

Vicis Capital Master Fund (Vicis), an institutional investor and selling stockholder beneficially owns 51,593,172 shares of Common Stock or approximately 60% upon full conversion and/or exercise of its Preferred Stock and Warrants (exclusive of any potential penalty shares for this registration statement). Vicis, as the holder of a majority of the Series D Preferred Stock, is entitled to nominate and elect a majority of the Company s Board of Directors until 50% of the Series D Preferred Stock has been converted into common stock. Pursuant to a Board of Directors resolution dated March 26, 2008, the number of directors of the Company was increased from four to seven and Vicis has the power to name the three new directors. While they have not yet named any new directors, Vicis has the ability to elect a majority of the Company s directors and will be able to control the outcome of other issues submitted to stockholders of the Company. This includes their ability to amend the Certificate of Incorporation, approve a merger or consolidation of the Company with another company or approve the sale of all or substantially all of the assets of the Company without the agreement of minority stockholders.

We do not anticipate paying dividends in the foreseeable future, and the lack of dividends may have a negative effect on the price of our common stock.

We currently intend to retain our future earnings, if any, to support operations and to finance expansion and therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

We are subject to critical accounting policies, and we may interpret or implement required policies incorrectly.

We follow generally accepted accounting principles for the United States in preparing our financial statements. As part of this work, we must make many estimates and judgments about future events. These affect the value of the assets and liabilities, contingent assets and liabilities, and revenue and expenses that we report in our financial statements. We believe these estimates and judgments are reasonable, and we make them in accordance with our accounting policies based on information available at the time. However, actual results could differ from our estimates, and this could require us to record adjustments to expenses or revenues that could be material to our financial position and results of operations in future periods.

Our Common Stock may experience significant volatility in the future, which substantially increases the risk of loss to persons owning our common stock.

Because of the limited trading market for our common stock, and because of the potential for significant price volatility, stockholders may not be able to sell their shares of Common Stock when they desire to do so. The inability to sell shares in a rapidly declining market may substantially increase the risk of loss as a result of such illiquidity and the price for our common stock may suffer greater declines in the event of significant price volatility.

Our Common Stock is traded on the OTC Bulletin Board, which may be detrimental to investors.

Our shares of Common Stock are currently traded on the OTC Bulletin Board. Stocks traded on the OTC Bulletin Board generally have limited trading volume and exhibit a wide spread between the bid/ask quotations. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market: investors may have difficulty buying and selling our common stock or obtaining market quotations; market visibility for our common stock may be limited; and a lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

Our Common Stock is subject to restrictions on sales by broker-dealers and penny stock rules, which may be detrimental to investors.

Our Common Stock is subject to Rules 15g-1 through 15g-9 under the Securities Exchange Act of 1934, as amended (the Exchange Act), which imposes certain sales practice requirements on broker-dealers who sell our common stock to persons other than established customers and accredited investors (as defined in Rule 501(a) of the Securities Act). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to the sale. This rule adversely affects the ability of broker-dealers to sell our common stock and purchasers of our common stock to sell their shares of our common stock.

Additionally, our common stock is subject to SEC regulations applicable to penny stocks. Penny stocks include any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions. The regulations require that prior to any non-exempt buy/sell transaction in a penny stock, a disclosure schedule proscribed by the SEC relating to the penny stock market must be delivered by a broker-dealer to the purchaser of such penny stock. This disclosure must include the amount of commissions payable to both the broker-dealer and the registered representative and current price quotations for our common stock. The regulations also require that monthly statements be sent to holders of a penny stock that disclose recent price information for the penny stock and information of the limited market for penny stocks. These requirements adversely affect the market liquidity of our common stock.

A significant number of our shares are eligible for sale, and their sale could depress the market price of our stock.

Sales of a significant number of shares of Common Stock in the public market pursuant to our recent registration statement could harm the market price of our common stock. Pursuant to a registration statement declared effective by the SEC in December 2007, an aggregate of 24,913,225 shares of Common Stock were registered and upon conversion of preferred stock and/or exercise of warrants are free-trading. As

additional shares of our common stock become available for resale in the public market, the supply of our common stock will increase, which could decrease its price. Some or all of the shares of our common stock may be offered from time to time in the open market pursuant to Rule 144 promulgated under the Securities Act (Rule 144), and these sales may have a depressive effect on the market for the shares of our common stock. In general, a person who is an affiliate of the Company and has held restricted shares for a period of six months may, upon filing with the SEC of a notification on Form 144, sell into the market our common stock in an amount equal to the greater of 1% of the outstanding shares or, if listed on Nasdaq or another national securities exchange, the average weekly number of shares sold in the last four weeks prior to such sale. Such sales may be repeated once every three months, and any of the restricted shares may be sold by a non-affiliate after they have been held six months subject only to the public information requirement and after one year without any restriction. There can be no assurance that we will fulfill our reporting requirements in the future under the Exchange Act or disseminate to the public any current financial or other information concerning us, as is required by Rule 144 as part of the conditions of its availability.

Preferred stock as an anti-takeover device.

We are authorized to issue 1 million shares of preferred stock, $.001 par value. The 5,612.8 shares of Series A Preferred Stock, 2,200 shares of Series B Preferred Stock and 2,000 shares of Series D Preferred Stock are each convertible into 2,857 shares of Common Stock (an aggregate of 28,036,288 shares) issued pursuant to the Equity Offerings are the first two series of our preferred stock to be issued. Our preferred stock may be issued in series from time to time with such designation, voting and other rights, preferences and limitations as our Board of Directors may determine by resolution. Unless the nature of a particular transaction and applicable statutes require such approval, the Board of Directors has the authority to issue these shares without stockholder approval subject to approval of the holders of our preferred stock. The issuance of preferred stock may have the effect of delaying or preventing a change in control of the Company without any further action by our stockholders.

The offering price of our common stock being offered by the selling security holders pursuant to this Prospectus may not bear any relationship to our value or assets.

The shares offered hereby will be sold on a delayed or continuous basis by selling security holders other than the Company. The price at which our common stock may be offered in the marketplace does not necessarily bear any relationship to our value or our assets.

Mandatory conversion of preferred stock under certain circumstances.

Following December 19, 2007, the effective date of our registration statement on Form SB-2 previously filed with the SEC, in the event that the Common Stock trades above 500% of the Conversion Price ($.35 per share) of the Series A Preferred Stock for a period of 30 consecutive trading days, each share of Series A Preferred Stock may be converted, at the Company s option, at its Face Value of $1,000 at the Conversion Price, into 2,857 shares of Common Stock. Upon such a mandatory conversion, stockholders will lose all of the preferences and other benefits of owning the Preferred Stock, other than the right to receive all dividends declared and unpaid up to the date of conversion.

Forward-Looking Statements

Statements contained in this prospectus include forward-looking statements within the meaning of such term in Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause actual financial or operating results, performances or achievements expressed or implied by the forward-looking statements not to occur or be realized. Forward-looking statements generally are based on our best estimates of future results, performances or achievements, based upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as may, will, could, project, expect, believe, estimate, anticipate, intend, continue, potential, opportunity or similar terms, variations of those terms or the negative of those other variations of those terms or comparable words or expressions.

Potential risks and uncertainties include, among other things, such factors as:

- our business strategies and future plans of operations,

- general economic conditions in the United States and elsewhere, as well as the economic conditions affecting the industries in which we operate,

- the market acceptance and amount of sales of our products and services,

- our current operating losses,

- the competitive environment within the industries in which we compete,

- our ability to raise additional capital, when needed for expansion, and

- the other factors and information discussed in other sections of this prospectus and in the documents incorporated by reference in this prospectus.

Persons reading this prospectus should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We will not receive proceeds from the sale of shares offered hereby by the Selling Stockholders, except upon the exercise of all of (i) the 7,534,339 Class A Warrants for $2,637,019 and (ii) the 5,356,512 Class B Warrants for $1,874,779. Thus, in the event all of the Class A and Class B Warrants requested hereby are exercised, we would receive aggregate proceeds of approximately $4,511,798. Any warrant proceeds received by us will be used by the Company for acquisitions and for working capital.

PRICE RANGE OF COMMON STOCK

The Company began trading on the over-the-counter bulletin board (OTCBB) governed by the FINRA under the symbol ADOV on September 15, 2006 and was previously available under the symbol SSSP since February 16, 2006, with the first transaction on June 9, 2006. The quotations listed below reflect interim dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions. The following table sets forth the high and low bid quotations per share of the Company s registered securities for each quarter during the last fiscal year, as reported by OTCBB.

	Common Stock	
	High	**Low**
Year Ending December 31, 2008:		
Quarter Ended March 31, 2008	**$ 0.50**	**$ 0.16**
Year Ended December 31, 2007:		
Quarter Ended December 31, 2007	$ 0.53	$ 0.16
Quarter Ended September 30, 2007	$ 0.75	$ 0.36
Quarter Ended June 30, 2007	$ 0.90	$ 0.40
Quarter Ended March 31, 2007	$ 0.90	$ 0.36
Year Ended December 31, 2006:		
Quarter Ended December 31, 2006	$ 2.00	$ 0.30
Quarter Ended September 30, 2006	$ 1.44	$ 0.008
Quarter Ended June 30, 2006	$ 0.008	$ 0.008
Quarter Ended March 31, 2006		

As of April 22, 2008 there were 47 holders of record of our common stock. On May 6, 2008, the closing price of our common stock as reported on the OTCBB was $0.12 per share.

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

The following discussion should be read in conjunction with the financial statements and notes thereto included in this prospectus. Except for the historical information contained herein, the discussion in this prospectus contains certain forward-looking statements that involve risk and uncertainties, such as statements of the Company s plans, objectives, expectations and intentions as of the date of this filing. The cautionary statements made in this document should be read as being applicable to all related forward-looking statements wherever they appear in this document. The Company s actual results could differ materially from those discussed here. Factors that could cause differences include those discussed in the Risk Factors section as well as discussed elsewhere herein.

Critical Accounting Policies

We have identified the policies outlined below as critical to our business operations and an understanding of our results of operations. The list is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management s judgment in their application. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis or Plan of Operation where such policies affect our reported and expected financial results. Note that our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Plan of Operation

AMI intends to establish a nationwide subsidiary network and plans to offer physicians the largest selection of competitively priced brand-name durable medical equipment (DME), and treatment products. We are seeking to take advantage of projected growth and evolving economies of scale arising from consolidation in the procedure specific DME and services segments of the orthopedic and podiatric physician care markets in the United States.

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

Our business strategy revolves around acquiring local DME companies with sales of between $1 million and $10 million per annum in the markets of orthopedics and podiatry. We will then consolidate them and build a single source provider of DME and pain management products. Our successful growth is predicated on our ability to acquire these existing companies in a roll-up and take advantage of economies of scale, resulting from our increase in size, to:

a) add on new acquisitions,

b) secure purchasing efficiencies,

c) contract for innovative new products, and

d) implement management and operational efficiencies.

We have identified the policies outlined below as critical to our business operations and an understanding of our results of operations. The list is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management s judgment in their application. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis or Plan of Operation where such policies affect our reported and expected financial results. Note that our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Revenue Recognition

Revenues are recognized on an accrual basis at the time services and related products are provided to patients and collections are reasonably assured, and revenues are recorded at amounts estimated to be received under healthcare contracts with third-party payers, including private insurers, prepaid health plans, and Medicare. Insurance benefits are assigned to the Company by patients receiving medical treatment and related products and, accordingly, the Company bills on behalf of its patients/customers. Under these contracts, the Company provides healthcare services, medical equipment and supplies to patients pursuant to a physician s prescription. The insurance company reimburses the company for these services and products at agreed upon rates. The balance remaining for product or service costs becomes the responsibility of the patient. A

systematic process is employed to ensure that sales are recorded at net realizable value and that any required adjustments are recorded on a timely basis. This process involves reviewing existing healthcare provider contracts and reimbursement amounts for products and services (by Health Care Provider Code, or HCPC code), reviewing historic services provided and revenues generated by the Company from existing contracts and reviewing billing amounts for services and products. The resulting data is used to determine the average contractual adjustment for the Company which is reviewed each month for potential adjustments. There have been no material adjustments to the Company s estimates to date. The Company has established an allowance to account for contractual sales adjustments that result from differences between the amount remitted for reimbursement and the expected realizable amount for all payor contracts. Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenue and accounts receivable at their net realizable values at the time products and/or services are provided. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review.

We perform analyses to evaluate the net realizable value of accounts receivable. Specifically, we consider historical realization data, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that our estimates could change, which could have a material impact on our operations and cash flows.

Certain durable medical equipment items provided by the Company are reimbursed under rental arrangements that

generally provide for fixed payments established by fee schedules for as long as the patient is using the equipment and medical necessity continues (subject to capped rental arrangements which limit the rental payment periods in some instances and which may result in a transfer of title to the equipment at the end of the rental payment period). Once initial delivery of rental equipment is made to the patient, a billing cycle is established based on the initial date of delivery or the total amount due if the patient uses the product for less than one month. The Company recognizes rental arrangement revenues ratably over the service period and defers revenue for the portion of the monthly bill which is unearned during a reporting period. No separate payment is earned from the initial equipment delivery and setup process. During the rental period we are responsible for servicing the equipment and providing routine maintenance, if necessary.

Our revenue recognition policy is consistent with the criteria set forth in Staff Accounting Bulletin 104 *Revenue Recognition* (SAB 104) for determining when revenue is realized or realizable and earned. We recognize revenue in accordance with the requirements of SAB 104 that:

- persuasive evidence of an arrangement exists;

- delivery has occurred;

- the seller s price to the buyer is fixed or determinable; and

- collectibility is reasonably assured.

The Company also derives commission revenue from contracts it maintains with orthopedic product and supply manufacturers. Commission revenues are recognized upon the shipment of products to customers in accordance with the terms of the Company s distribution agreements.

Included in accounts receivable are earned but unbilled receivables. Unbilled accounts receivable represent charges for equipment and supplies delivered to customers for which invoices have not yet been generated by the billing system. Prior to the delivery of equipment and supplies to customers, we conduct certain certification and approval procedures to ensure collection is reasonably assured and that unbilled accounts receivable are recorded at net amounts expected to be paid by customers and third-party payors. Billing delays, ranging from several weeks to several months, can occur due to delays in obtaining certain required payor-specific documentation from internal and external sources, interim transactions occurring between cycle billing dates established for each customer within the billing system and business acquisitions awaiting assignment of new provider enrollment identification numbers. In the event that a third-party payor does not accept the claim for payment, the customer is ultimately responsible.

Accounts Receivable Contractual Sales Adjustments and Related Allowances for Uncollectible Accounts Receivable

Accounts receivable are reported net of allowances for sales adjustments and uncollectible accounts. The majority of our accounts receivable are due from Medicare, Medicaid and private insurance carriers, as well as from customers under co-insurance provisions. Third-party reimbursement is a complicated process that involves submission of claims to multiple payors, each having its own claims requirements. In some

cases, the ultimate collection of accounts receivable subsequent to the service dates may not be known for several months. The Company has established an allowance to account for sales adjustments that result from differences between the payment amounts received from customers and third-party payors and the expected realizable amounts. We report revenues in our financial statements net of such adjustments. We record bad debt expense based on a percentage of revenue using historical Company-specific data. The percentage and amounts used to record bad debt expense and the allowance for doubtful accounts are supported by various methods including current and historical cash collections, bad debt write-offs, and aging of accounts receivable. Our management information systems are utilized to provide this data in order to assess bad debts. In the event that collection results of existing accounts receivable are not consistent with historical experience, there may be a need to establish an additional allowance for doubtful accounts, which may materially impact our financial position or results of operations.

Stock based Compensation Expense

The Company adopted SFAS No. 123R, Share-Based Payments in the first quarter of fiscal 2006. Under the requirements of SFAS No. 123R, share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period of the award. The Company recognizes stock option expense using the straight-line attribution method under SFAS No. 123R. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options. Option valuation models require the input of assumptions, including the expected life of stock options, the expected stock price volatility, the risk-free interest rate, and the expected dividend yield. The expected volatility and expected life are based on our limited operating experience. The risk-free interest rate is based on

U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. Expected dividend yield was not considered in the option pricing formula as we do not pay dividends and have no current plans to do so in the future. We will update these assumptions if changes are warranted.

Material Changes in Results of Operations

Material Changes in Results of Operations for the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Net revenues. As noted previously, we completed the acquisition of our first two operating companies in May 2007. Revenues from the acquisition dates through December 31, 2007 were $6,199,539. We had not generated revenues during the period ended December 31, 2006.

Cost of revenues. The cost of revenue for the post-acquisition period through December 31, 2007 totaled $2,588,993. These costs include product purchases and other direct costs such as salaries, commissions, and distribution charges. The Company s gross profit margin was 58% during the year ended December 31, 2007. During the period ended December 31, 2006, we did not incur costs associated with revenues.

General and administrative expenses. During the year ended December 31, 2007, we incurred operating expenses of $6,436,184 (104% of net revenue), including $1,217,404 in compensation expense related to share-based payment awards, compared with operating expenses of $608,903, including $220,680 in share-based payment awards, during the period ended December 31, 2006, prior to the acquisition of the first two operating companies. Other operating expenses incurred during the period ended December 31, 2006 include wages, rent, insurance, and professional fees.

Interest expense. During the year ended December 31, 2007, we incurred interest expense of $169,301, consisting primarily of $47,448 interest expense related to $160,000 of bridge offering promissory notes issued in October 2006 (the Bridge Notes) and $89,805 related to the Company s credit facility with TDBanknorth. On March 29, 2007, investors holding $60,000 in principal loan value converted their Bridge Notes and accrued interest into 63 shares of the Company s 6% Series A Convertible Preferred Stock. The remaining balance of $100,000 plus accrued interest was paid off. During the period ended December 31, 2006, interest expense totaled $115,395, related to the amortization of the note discount on the Bridge Notes.

Provision for income taxes. During the year ended December 31, 2007, the Company had income tax provisions for state income and franchise taxes $46,664. For the year ended December 31, 2006, the Company had a state income and franchise tax provision of $6,233.

Other expenses. During the year ended December 31, 2007, the Company incurred $2,580,537 in Other Expenses, consisting primarily of $2,000,000 for the legal settlement costs associated with Otto Bock, and $574,816 accrued for the cost of stock to be issued due to the late filing of the Registration Statement on SEC Form SB-2. There were no Other Expenses for the year ended December 31, 2006.

Net loss. Net loss for the year ended December 31, 2007 was $5,535,439 or ($.20) per basic and diluted share, reflecting primarily $2,000,000 for the legal settlement costs associated with Otto Bock HealthCare, LP, $574,816 in accrued non-cash penalties for the delayed effective date of the Registration Statement on SEC Form SB-2, $1,217,404 of share based compensation expense, and the costs incurred to execute our business strategy. For the year ended December 31, 2006, net loss was $729,682 or ($.03) per share, due to the effects of our reorganization and recapitalization.

Material Changes in Financial Condition, Liquidity and Capital Resources as of December 31, 2007

The Company had cash of $560,375, a decrease of $1,817,197 from the balance of $2,377,572 at December 31, 2006, primarily as a result of the Company s acquisition activity during the year and the net loss from operations of $5,535,439 during the year ended December 31, 2007. The Company had working capital of $474,460 at December 31, 2007, reflecting primarily accounts receivable and inventories of the acquired companies, offset by accounts payable and accrued expenses, and the bank line of credit. As of December 31, 2006, the Company s working capital was $2,319,029, reflecting the proceeds from issuing preferred stock, offset by accrued expenses.

Net cash used in operating activities was $2,026,523 for the year ended December 31, 2007, primarily attributable to the net loss adjusted for non-cash expenses (stock based compensation expense of $1,217,404, depreciation and amortization of $370,890, stock issued for expenses of $1,550,000, and interest and fees related to bridge loans of $47,448), an increase of $81,276 in prepaid and other assets, consisting primarily of $109,145 in amortizable fees relating to acquisition costs combined

with $86,378 in deferred financing costs, a decrease in inventory of $128,596 of the acquired companies, and an increase in accounts payable and accrued expenses of $265,009 (primarily from $574,816 in accrued non-cash penalties for the delayed effective date of the Registration Statement on Form SB-2, offset by $442,208 reduction in accounts payable). Net cash used in operating activities for the year ended December 31, 2006 was $358,522, primarily attributable to the net loss adjusted for non-cash expenses (stock based compensation expense of $227,240, interest expense of $115,395 and depreciation of $6,053), and an increase in accounts payable and accrued expenses of $165,339. Unless the identified and additional acquisitions are completed over the next 12 months, we will not have significant working capital to hire additional employees, market or otherwise pursue our business plan.

Net cash used in investing activities during the year ended December 31, 2007 was $3,582,664, primary reflective of the Company s two acquisitions in May 2007. In addition, $180,733 was in incurred capital expenditures, primarily by the acquired companies. During the year ended December 31, 2006, investing activities used $62,121 in cash, for capital expenditures.

Net cash provided by financing activities during the year ended December 31, 2007 was $3,791,990, primarily representing proceeds from the issuance of preferred stock of $4,175,074, net of offering costs, offset by net payments in acquired company debt of $439,959, as compared with $2,798,215 during the same period of 2006, representing proceeds, net of issuing costs, from the Bridge Notes and the issuance of preferred stock.

On May 11, 2007, AMI and its wholly-owned subsidiaries entered into a $5 million credit agreement with TD Banknorth. This facility was terminated on or about April 1, 2008, when the Company repaid outstanding indebtedness of approximately $1.6 million. The borrowing capacity available to the Company under the credit agreement consisted of notes representing a two year $4 million Senior Secured Revolving Credit Facility and a two year $1 million Senior Secured Revolving Acquisition Loan Facility which converted into a three-year term loan.

All borrowings under our credit agreement bore interest at either (i) a rate equal to LIBOR, plus an Applicable Margin (as defined in the credit agreement), or (ii) a Base Rate (as defined in the credit agreement) plus an Applicable Margin.

AMI and each of its wholly-owned subsidiaries, Ortho-Medical Products, Inc., Rainier Surgical Incorporated, Rainer Acquisition Corp. and Andover Management Services, Inc. were borrowers under our credit agreement and their obligations were guaranteed by AMI and all of AMI s subsidiaries. Each of the Company s assets were pledged as security under our credit agreement.

Our credit agreement was initially utilized to replace commitments and outstanding balances under Rainier Surgical Incorporated s existing credit facility with Heritage Bank. Subsequent proceeds of the credit agreement balances were used for working capital and for general corporate purposes.

In addition to existing cash, we need additional capital to execute our business strategy and cover ongoing operating expenses. Without new acquisitions, we estimate that we may require up to $70,000 per month through the end of 2008. These factors raise substantial doubt about our ability to continue as a going concern. The Company s future liquidity and cash requirements will depend on a wide range of factors, including the performance of recently acquired operating businesses.

If we are to fully implement our business plan, we anticipate that our use of cash for acquisitions, related integration and holding Company costs will be substantial for the foreseeable future, and will exceed our cash flow from operations during the next 12 months and thereafter, absent a significant increase in sales. To fully implement our business plan, over the next 12 months we anticipate that we will require additional investment capital for completing acquisitions. While we expect to raise capital or seek additional financing, there can be no assurance that such raising of capital or seeking of additional financing would be available in amounts and on terms acceptable to us. Unless additional acquisitions are completed over the next 12 months, we will not have significant working capital to hire additional employees, market or otherwise pursue our business plan.

BUSINESS

Description of Business.

Andover Medical, Inc. referred to herein as we, our, us, registrant, our Company, the Company, Company, or AMI is a publicly tra (OTCBB:ADOV) that was formed to engage in the business of distributing procedure specific durable medical equipment (DME) and services segments of the orthopedic and podiatric 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 physical 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 treatment products.

Orthopedics 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 often 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 million restricted shares of its common stock in connection with the transaction to management and certain affiliates in connection with the transaction.

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.; at that time, 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 as its sole director. Mr. Reilly was elected Chairman of the Board and Chief Executive Officer on March 9, 2007.

Business Strategy

The business strategy of AMI revolves around acquiring local DME companies with net revenues of between $1 million and $10 million per annum in the markets of orthopedics and podiatry. We will then consolidate them and become a single source provider of DME 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. To date, AMI has been unable to complete several subsequent acquisitions for various reasons, including an inability to negotiate definitive terms of acquisitions, complete due diligence to our satisfaction, or otherwise complete the acquisition of any other entities. Accordingly, our Board of Directors has conducted negotiations to merge the Company together with three other entities that are engaged in the business of providing DME products and services and pharmacy services. There can be no assurance such proposed merger or any other combination transactions will be completed.

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 offers 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 and Apria;

• *Orthotics and Prosthetics (O&P)* Hanger Orthopedic Group; and

• *Manufacturing of bracing and orthopedic soft goods* DJ Orthopedics, OSSUR and 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 7 for more information concerning the risks of investing in our company.

Completed Acquisitions

Rainier Surgical, Incorporated

On May 11, 2007, the Company completed the acquisition of all the issued and outstanding capital stock of Rainier Surgical Incorporated. The acquisition was pursuant to a Stock Purchase Agreement entered into on May 11, 2007, by and among a wholly-owned subsidiary of the Company, Rainier Surgical and Garth Luke, as Seller.

The aggregate purchase price paid was approximately $3,835,000, subject to post-closing adjustments and an escrow, consisting of $2,675,000 in cash, an aggregate of 1,472,995 shares of the Company s common stock valued at $900,000, based on a price per share of $.63 which was the 10-day average prior to closing and acquisition costs of approximately $260,000.

Rainier Surgical Incorporated. headquartered in Auburn, WA, specializes in the sales, service, distribution, and marketing of orthopedic DME. Established in 1991, Rainier Surgical is the largest stock and bill provider of orthopedic DME in the State of Washington. Currently, Rainier Surgical has more than 45 trained and experienced staff members and approximately $5.2 million in revenues for 2006. Through its stock and bill program, Rainier Surgical successfully minimizes the overhead cost and expense physicians, clinics, hospitals, and surgery centers incur when prescribing and distributing orthopedic DME products to their patients.

Rainier Surgical s stock and bill program provides physician clinics with a simple and cost-effective method to providing patients with the finest and largest selection of orthopedic DME. The stock and bill program allows Rainier Surgical to act as a liaison between physician clinics and multiple orthopedic DME manufacturers. Working directly with physician clinics, Rainier Surgical s relationship with multiple orthopedic DME manufactures enables Rainier Surgical to provide a large vendor neutral selection of orthopedic DME to clinics and patients. By ordering and stocking DME equipment at the clinic s request, Rainier Surgical eliminates the clinic s DME product expense. Rainier works with all major insurance carriers and HMO organizations to provide third-party billing services for contracted physician clinics.

Successful third-party billing is vital in executing stock and bill programs. Rainier Surgical s long-standing relationship with insurance carriers and HMO organizations facilitates smooth and effective billing services for prescribed orthopedic DME. Rainier has over 50 contracts with all the major insurance companies in Washington. After ordering and stocking prescribed orthopedic DME for contracted clinics, Rainier Surgical s billing department files HCFA 1500 claim forms to appropriate insurance companies. Payment on the filed claim is then sent to Rainier Surgical. If a co-payment is necessary, Rainier Surgical bills patients for the determined co-payment amount. In order to offer the best service and coverage to patients, Rainier Surgical focuses on providing the lowest out-of-pocket expense to patients and the most competitive pricing to insurance carriers.

Rainier Surgical s stock and bill program shifts the expense and overhead costs of billing, claim management, and accounts receivables away from the medical practitioner while providing the patient and the physician with superior orthopedic DME product offerings. The total revenue from insurance payers is 70 percent private, 25 percent Medicare and Medicaid, and 5 percent to other payers. Currently, Rainier Surgical has secured over 120 stock and bill accounts in the Pacific Northwest. Through their extensive distribution network, diverse product offering, expertise in products, insurance billing and inventory management, Rainier Surgical services more than 300 health care providers in acute-care hospital, clinics, and physician offices in Washington, Oregon, and Northern Idaho.

Ortho-Medical Products, Inc.

On May 4, 2007, the Company completed the acquisition of 100% of the outstanding capital stock of Ortho-Medical Products, Inc., a full-service company specializing in procedure specific orthopedic durable medical equipment (DME), respiratory equipment, and orthotics and prosthetics (O&P). Founded in 1982, Ortho-Medical Products focuses on servicing the needs of patients in the Tri-State Region; specifically the five boroughs of New York City, Nassau, Suffolk, and Westchester Counties, Northern New Jersey, Upper New York State, and the State of Connecticut. With four locations, three in New York and one in Connecticut, Ortho-Medical Products has approximately 30 employees who work to make this network available to Case Managers, Preferred Provider Organizations and Health Maintenance Organizations. Ortho-Medical Products has contracted with approximately 50 health insurance payers, plus Medicare and Medicaid. Ortho-Medical Products reported revenues of $3.2 million in 2006. Of Ortho-Medical Products total revenue, private insurance accounts for 69 percent, Medicare & Medicaid account for 23 percent, and other payers account for 8 percent. Focusing on quality care and service, Ortho-Medical Products has secured over 800 accounts that service more than 5,000 Tri-State Region patients.

Within Ortho-Medical Products, the custom orthotics and prosthetics product line has seen substantial growth. Ortho-Medical Products distributes customized and prefabricated O&P products. Presently, O&P sales are split, 50 percent prefabricated and 50 percent sophisticated custom orthotics. When compared to prefabricated O&P devices, Ortho-Medical Products customized orthotics provides greater support for patient s compromised joints, weak muscles, and other medical conditions. Presently, Ortho-Medical s O&P product line generates the greatest portion of sales revenue for the Company - 60 percent. Of Ortho-Medical s additional product lines, general DME comprises 22 percent; respiratory equipment comprises 10 percent, and rehabilitation equipment (primarily cold therapy products to expedite post surgery recovery) comprises the remaining 8 percent of total sales revenue.

The aggregate purchase price paid was approximately $2,579,000, subject to post-closing adjustments and an escrow, consisting of $134,000 in cash; an unsecured promissory note to the sellers in the amount of $100,000 due one year from closing with simple interest at 6% per annum; and 3,300,000 shares of the Company s common stock (valued at $2,145,000, based on a per share price of $.65 which was the 10 day average prior to closing), and acquisition costs of approximately $200,000. Existing Ortho-Medical Products management continued post-closing in accordance with certain employment or consulting agreements executed at closing.

Strategic Stages of AMI s Development

The following represents the likely stages of AMI s development over the next 12 to 24 months based on current conditions and assumptions:

Strategic Vision for Building Enterprise Value

Phase 1: Initial Acquisition. Acquire platform to support initial acquisitions and begin to acquire small local DME companies or suppliers to create foothold in different geographic markets with an increasing variety of product offerings.

Phase 2: Expansion with Acquisitions. Additional acquisitions that enhance revenue stream and are strategic in nature. Concentrate on synergies between acquired businesses, such as obtaining exclusive product rights that can be channeled into expanding distribution network and demonstrate increased economies of scale.

Phase 3: National Brand Recognition. Roll-out strategy that transforms local market companies in combination with unique products into a nationally recognized and identified DME brand. This, in turn, is expected to trigger: a size premium, recurring diversified revenue premium, strong organic growth, and a premium, high quality, high margin customer base.

An integration strategy that mirrors activities in physician practices.

The increasing evolution of managed care has forced economic efficiencies on physician practices, while attempting to limit reimbursement for services. There is a nationwide trend toward practice consolidation with out-sourcing of costly and unnecessary administrative support. The broader the range of products supplied by DME companies, the more attractive they are to physician practices seeking to deal with a limited number of suppliers. The stock and bill option advocated by AMI supplies practices with needed orthopedics and podiatry products, while eliminating the need for patient referrals to DME vendor facilities. In the end, physician practice customers benefit from out-sourced billing and inventory control management functions.

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 DME. These changes include a freeze in payments for DME 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 began in certain regions 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.

Growth of targeted markets served by physician specialties.

The orthopedics and podiatry specialties- unlike family practice, pediatrics, internal medicine, and primary care, are growing because of the expanding need for services by the baby boomer population. As patients live longer, they require increased prescription of DME devices for treating injuries and medical conditions. These factors account for the anticipated growth in the size of the patient market for DME products and the need for their increased frequency of prescription for them.

According to Frost and Sullivan the U.S. DME orthopedic product market is estimated to be a $1.02 billion dollar industry. The American Academy of Orthopedic Surgeons (AAOS) estimates that it is probable that 10 percent of all patients seen by the 2,700 orthopedic clinics require the prescription of DME products. Approximately one-third of these clinics utilize the stock and bill model for DME products, which offers the potential for excellent market expansion into these clinics by AMI.

The Foot and Health Foundation of America states that foot disease is the most common complication of diabetes leading to hospitalization. Podiatry DME products have high usage among diabetics, which now account for about 15.7 million people nationwide. According to the World Health Organization, in 2005 there was an estimated 20.8 million people in the United States with diabetes. The Center for Disease Control (CDC) predicts that one in three Americans born in 2000 will develop diabetes during his or her lifetime.

The AAOS estimates that one in six Americans experience foot problems at any one time and 36 percent seek medical attention. According to the American Podiatric Medical Association - podiatry is a $16 billion industry and is served by 14,000 podiatrists, whose numbers are increasing at a rate in excess of ten percent per year.

AMI s financial positioning offers an excellent exit opportunity for emergent DME companies and product companies.

While consolidation in a market such as DME provides opportunities for acquisition, it also reduces the attractiveness of the value proposition for DME distributors and suppliers. Many emergent DME companies do not have the available capital sufficient to promote their products, nor the distribution channel to sell them. As a public company, AMI expects to be able to negotiate innovative arrangements with companies that require AMI s expertise and market leverage for survival.

Determinants of Business Success for AMI.

Management believes that its ability to execute the following tasks as AMI matures is probably the most significant determinant in the Company s ability to grow and prosper:

- acquire companies in numbers that reach critical mass to achieve economies of scale and branding opportunities;

- develop scalable physician customer base in the orthopedic and podiatric specialties based on achievement of a competitive value proposition in the marketplace for DME products;

- negotiate exclusivity with respect to innovative or already branded products that distinguishes AMI from its competitors;

- enjoy price advantages over competitors based on either AMI s size or its competitive position in particular markets;

- maintain stable pricing and margins for DME products during the next several years with the ability to compete if restrictive pricing and limited source contracts become prevalent for DME under Medicare;

- have sufficient market share or unique products to enable negotiation with managed health insurers as they, following Medicare s lead, consolidate the number of DME suppliers with whom they will do business; and

- obtain sufficient working capital to avoid the cyclical fluctuations in the volume of DME business.

Our Market

Our market is focused upon durable medical equipment, or DME, prescribed by orthopedic physicians and podiatrists. In 2002 there were almost 1,000 *stock and bill* programs established nationwide. According to Frost and Sullivan, over the past few years these *stock and bill* programs have had an increase in popularity given a few of the following developments:

- more outpatient arthroscopic and other orthopedic surgeries performed in facilities which traditionally did not carry significant brace and soft goods inventories;

- clinics are able to support a wider range of products from multiple manufacturers without additional effort; and

- tighter reimbursement under managed care for services rendered at orthopedic clinics encourages physicians and administrators to look to other possible sources of revenue

Orthopedic Market Channel

According to the AAOS there are over 2,700 orthopedic clinics in the United States, and on average each of these clinics has seven doctors practicing in it. According to Frost and Sullivan, approximately one in every seven Americans has a musculoskeletal impairment of some kind, which translates to nearly 28.6 million Americans that sustain musculoskeletal injuries annually. These injuries are estimated to cost the United States 215 billion dollars each year.

Based on research from Frost and Sullivan, in 2002 the orthopedic braces and supports market generated approximately $1.02 billion dollars in revenue, and it is forecasted to grow to $1.18 billion dollars by 2009.

The AAOS s February 2003 Bulletin suggests that the distribution of orthopedic surgeons across the U.S. can be broken down into nine major census divisions. Four regions, each of which includes a very populous state or states (California, Florida, Texas, New York, Colorado), dominate the total share of orthopedic surgeons.

Podiatric Market

The AAOS suggests that one in every six people in the U.S. have foot problems at any given time, and 36 percent of these people regard their foot problems as serious enough to warrant medical attention The American Podiatrist Medical Association (APMA) estimates that more than 75 percent of Americans will experience foot problems of varying degrees of seriousness at one time in their lives. Those who finally seek help will turn to a doctor of podiatric medicine, of which there are about 14,000 practicing in the U.S. From a current podiatric medicine study done by Oglethorpe University, in Atlanta, there is one podiatrist for every 23,000 people in the U.S.

At present, the APMA estimates that 19 percent of the U.S. population experiences more than one foot problem a year. This translates into an approximate $16 billion industry. According to the AAOS the cost of foot surgery to correct foot problems from tight-fitting shoes alone is $2 billion a year. If time off from work for the surgery and recovery is included, the cost is $3.5 billion.

A study conducted by the AAOS found that:

- nine out of 10 women are wearing shoes that are too small for their feet,
- eight out of 10 women say their shoes are painful,
- more than seven out of 10 women have developed a bunion, hammertoe, or other painful foot deformity, which will eventually require a surgical procedure,
- women are nine times more likely to develop a foot problem because of improper fitting shoes than a man, and
- nine out of 10 women s foot deformities can be attributed to tight shoes.

Podiatric surgical procedures often involve DME including at least two or all of the following: walker boot, pain pump, splints, crutches, cryotherapy (a device that can produce both heat and cold therapy) and/or continuous passive motion device.

Other Podiatric DME Opportunities

AMI believes that the market opportunity relating to non-surgical podiatric patients will be just as large, if not larger than the outpatient surgical opportunity. Currently, most businesses in the footcare field target individuals 50 years and older. This is an important and rapidly growing demographic group. As the Baby Boom generation continues to age, the market for products and services aimed at older people will explode. According to the U.S. Department of Health and Human Services in 2002, people 65 years or older numbered 35.6 million, or 12 percent of the population. By 2010, that total will reach an estimated 40.2 million, an increase of almost 13 percent. By 2030, there will be about 71.5 million Americans age 65 or older, more than twice their number in 2000, and that age group will make up 20 percent of the population. AMI s products also benefit individuals beyond the older market segment, including children, young adults and diabetics.

Diabetic Opportunity

According to the Foot and Health Foundation of America there are 15.7 million diabetics in the U.S., representing 5.9 percent of the population. There are 798,000 new cases of diabetes diagnosed each year. Each day approximately 2,200 people are diagnosed with diabetes. Diabetics often have major problems with their feet that can be prevented with proper foot care, orthotics and/or shoes. The total annual cost for treatment of diabetes is more than $1.1 billion dollars. This cost does not include surgeon s fees, rehabilitation costs, prostheses, time lost from work, and disability payments. Diabetes contributes to many health related complications such as: ulcers, amputation, heart disease, stroke, kidney disease, blindness, and foot disease. Foot disease is the most common complication of diabetes leading to hospitalization. Medicare and most third party payers provide coverage for walker boots and therapeutic footwear such as depth inlay shoes, custom-molded shoes, and shoe inserts for people with diabetes who qualify under Medicare.

Competition

The non-operative orthopedic and podiatry markets are highly competitive and fragmented. Our competitors include several large, diversified orthopedic companies and numerous smaller niche companies in the orthopedic and podiatry markets. Some of our competitors are part of corporate groups that have significantly greater financial, marketing and other resources

than we do. Many of our vendors and competitors are manufacturers and suppliers of orthopedic products, such as Breg Incorporated, DJO Incorporated (formerly known as DJ Orthopedics, Inc.), Bledsoe Medical Technology, Inc., Innovation Sports Incorporated, Biomet, Inc., DeRoyal Industries, EPI Medical Systems, Inc. (a subsidiary of BioMet, Inc.) and Royce Medical Co.

Governmental Regulation

Third-Party Reimbursement

Our products generally are prescribed by physicians and are eligible for third-party reimbursement. An important consideration for our business is whether third-party payment amounts will be adequate, as this is a factor in our customers selection of our products. We believe that third-party payors will continue to focus on measures to contain or reduce their costs through managed care and other efforts. Medicare policies are important to our business because third-party payors often model their policies after the Medicare program s coverage and reimbursement policies.

Healthcare reform legislation in the Medicare area has focused on containing healthcare spending. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Medicare Modernization Act, was enacted, which provides for revisions to payment methodologies and other standards for items of DME and orthotic devices under the Medicare program. As a result, beginning in 2004 and continuing through 2008, the reimbursement amounts for orthotic devices will increase on an annual basis. In 2007, a competitive bidding program was phased in to replace the existing fee schedule payment methodology. Supplier quality standards are to be established which will be applied by independent accreditation organizations and clinical conditions for payment will be established for certain products.

In recent years, efforts to control Medicare costs have included the heightened scrutiny of reimbursement codes and payment methodologies. Under Medicare, certain devices used by outpatients are classified using reimbursement codes, which in turn form the basis for each device s Medicare payment levels. Changes to the reimbursement codes describing our products can result in reduced payment levels or a reduction in the breadth of products for which reimbursement can be sought under recognized codes.

On February 11, 2003, the Centers for Medicare and Medicaid Services, or CMS, made effective an interim final regulation implementing inherent reasonableness authority, which allows the agency and contractors to adjust payment amounts by up to 15% per year for certain items and services when the existing payment amount is determined to be grossly excessive or grossly deficient. CMS may make a larger adjustment each year if it undertakes proscribed procedures. The regulation remains in effect after the Medicare Modernization Act, although the use of inherent reasonableness authority is precluded for devices provided under competitive bidding. We do not know what impact inherent reasonableness and competitive bidding would have on us or the reimbursement for our product sales.

In addition to changes in reimbursement codes and payment methodologies, the movement toward healthcare reform and managed care may continue to result in downward pressure on product pricing.

Fraud and Abuse

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 civil sanctions, including, in some instances, exclusion from participation in federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs and TRICARE (the U.S. Military Health System). We believe that our operations are, and those of our proposed acquisitions will need to be in material compliance with these laws. However, because of the breadth of these laws, there can be no assurance that we would not be required to alter one or more of our practices to be in compliance with these laws. In addition, there can be no assurance that the occurrence of one or more violations of these laws or regulations would not result in a material adverse effect on our financial condition and results of operations.

Certain provisions of the Social Security Act, which are commonly known collectively as the Medicare Fraud and Abuse Statute, prohibit entities from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending, or arranging for a good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid. The definition of remuneration has been broadly interpreted to include anything of value, including such items as gifts, discounts, waiver of

payments, and providing anything at less than its fair market value. The U.S. Department of Health and Human Services, or HHS, has issued regulations, commonly known as safe harbors, that set forth certain provisions which, if fully met, will assure healthcare providers and other parties that they will not be in violation of the Medicare Fraud and Abuse Statute. The penalties for violating the Medicare Fraud and Abuse Statute include fines of up to $25,000 per violation and possible exclusion from federal healthcare programs such as Medicare and Medicaid. Many states have adopted prohibitions similar to the Medicare Fraud and Abuse Statute, some of which apply to the referral of patients for healthcare services reimbursed by any source, not only by the Medicare and Medicaid programs.

Federal physician self-referral legislation prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain designated health services if the physician or an immediate family member has any financial relationship with the entity. These laws also prohibit the entity from receiving the referral from billing any good or service furnished pursuant to an unlawful referral, and any entity collecting any amounts in connection with an unlawful referral is obligated to refund such amounts. An entity that engages in a scheme to circumvent these laws may be fined up to $100,000 for each such arrangement or scheme. The penalties for violating these laws also include civil monetary penalties of up to $15,000 per referral and possible exclusion from federal healthcare programs such as Medicare and Medicaid. Various states have corollary laws, including laws that require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider. Both the scope and exceptions for such laws vary from state to state.

Under federal and state statutes, submission of claims for payment that are not provided as claimed may lead to civil monetary penalties, criminal fines and imprisonment, and/or exclusion from participation in Medicare, Medicaid and other federally funded state health programs. These false claims statutes include the Federal False Claims Act, which prohibits the knowing filing of a false claim or the knowing use of false statements to obtain payment from the federal government. When an entity is determined to have violated the False Claims Act, it must pay three times the actual damages sustained by the government, plus mandatory civil penalties of between $5,500 and $11,000 for each separate false claim. Suits filed under the False Claims Act can be brought by any individual on behalf of the government and such individuals (known as realtors or, more commonly, as whistleblowers) may share in any amounts paid by the entity to the government in fines or settlement. In addition, certain states have enacted laws modeled after the federal False Claims Act. Actions under these laws have increased significantly in recent years.

Federal Privacy and Transaction Law and Regulations

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, mandates, among other things, the adoption of standards for the electronic exchange of health information that may require significant and costly changes to current practices. Sanctions for failure to comply with HIPAA include civil and criminal penalties. HHS has released three rules to date mandating the use of new standards with respect to certain healthcare transactions and health information. The first rule requires the use of uniform standards for common healthcare transactions, including healthcare claims information, plan eligibility, referral certification and authorization, claims status, plan enrollment and disenrollment, payment and remittance advice, plan premium payments, and coordination of benefits. The second rule imposes new standards relating to the privacy of individually identifiable health information. These standards not only require our compliance with rules governing the use and disclosure of protected health information, but they also require us to obtain satisfactory assurances that any employee, consultant, advisor or other third-party of ours to whom such information is disclosed will safeguard the information. The third rule establishes minimum standards for the security of electronic health information.

Governmental Audits

As part of our business structure, our pending acquisitions submit claims and receive payments directly from Medicare, Medicaid programs and private payors. Thus, as a supplier of medical devices, our operations will be subject to periodic surveys and audits by governmental entities or contractors to assure compliance with Medicare and Medicaid standards and requirements. To maintain our billing privileges, we will be

required to comply with certain supplier standards, including, by way of example, licensure and documentation requirements for our claims submissions. From time to time in the ordinary course of business, we, like other healthcare companies, will be audited by, or receive claims documentation requests from, governmental entities, which may identify certain deficiencies based on our alleged failure to comply with applicable supplier standards or other requirements. We will review and assess such audits or reports and attempt to take appropriate corrective action. We also are subject to surveys of our physical location for compliance with supplier standards. The failure to effect corrective action to address identified deficiencies, or to obtain, renew or maintain any of the required regulatory approvals, certifications or licenses could adversely affect our business, results of operations or financial condition and could result in our inability to offer our products and services to patients insured by the programs.

Employees

AMI employed approximately 64 persons as of March 10, 2008. At our headquarters, there are four employees: Edwin A. Reilly, Chief Executive Officer, James A. Shanahan, Chief Financial Officer, an assistant controller and a project coordinator. We are in the process of hiring additional sales, marketing, financial and operating personnel, most of whom we expect will be employed by our recent acquisitions. As of December 31, 2007, our Ortho-Medical Products Inc. subsidiary employed approximately 24 persons. Our Rainier Surgical Incorporated subsidiary employed approximately 36 persons.

Properties

The Company leases its corporate headquarters at 510 Turnpike Street, Suite #204, North Andover, Massachusetts, 01845; Tel: 978-557-1001. The facility encompasses approximately 3,014 square feet of office space.

Ortho-Medical Products, Inc. maintains four leased store-front offices, including three in New York State and one in Connecticut.

Rainier Surgical Incorporated maintains its administrative offices and warehouse at 1144 29th St., NW, Auburn, Washington, 98001.

MANAGEMENT

Executive Officers and Directors

The following are our current executive officers and directors and their respective ages and positions:

Names	Ages	Position
Edwin A. Reilly	61	Chairman of the Board, Chief Executive Officer and Chief Operating Officer
James A. Shanahan	51	Chief Financial Officer and Secretary
Robert G. Coffill, Jr.	51	Director
Marshall S. Sterman	76	Director
Robert A. Baron	68	Director

Edwin A. Reilly. Mr. Reilly was elected Chairman of the Board and Chief Executive Officer on March 9, 2007. Mr. Reilly was elected President and Chief Operating Officer on August 31, 2006 and is currently serving in those positions. Mr. Reilly was Chief Executive Officer of Bellacasa Productions, Inc. (now known as WiFiMed Holdings Company, Inc.), a medical device company, from September 2005 to August 2006. Formerly, he was Chief Executive

Officer of Ortho Rehab, Inc. from 2004 to 2005, a manufacturer and distributor of continuous passive motion devices. He was an administrative officer of Med Diversified Inc. (Med) from 2001 to 2002, then the largest healthcare staffing and infusion company in the United States. In November 2002, Med Diversified filed for bankruptcy following the indictment of National Century Financial Enterprise (NCFE). NCFE was the lending source for Med Diversified and 116 other companies all of which were closed, sold, restructured or forced into bankruptcy. The NCFE criminal proceedings were the largest healthcare fraud case brought and there is still an ongoing grand jury investigation. Subsequent to the bankruptcy filing, Mr. Reilly was appointed Med s Chief Operating Officer in March 2003 and served until August 2004. He was also Secretary from October 2001 to August 2004, and Executive Vice President of Administration and Human Resources from August 2001 until March 2003. Previously, Mr. Reilly served as Executive Vice President of Administration and Human Resources for Chartwell Diversified Services, Inc. (and its predecessor company) from 1999 to 2001. He was Vice President of Human Resources for Serono Laboratories, Inc. from 1985 to 1999. Prior to that role, he served as Vice President of Human Resources for the International Health Care Group of Revlon, Inc. Mr. Reilly holds an M.B.A. in Corporate Finance from New York University and a B.S. in Economics from Fordham University.

James A. Shanahan. Mr. Shanahan was elected Chief Financial Officer of the Company on September 11, 2007. Prior thereto, he served as Vice President of Administration and Secretary of the Company from January 2007. From 2001 to 2006, he was the vice president of finance with Med Diversified Inc., then the largest healthcare staffing and infusion company in the United States. In November 2002, Med Diversified filed for bankruptcy following the indictment of National Century Financial Enterprise (NCFE). NCFE was the lending source for Med Diversified and 116 other companies all of which were closed, sold, restructured or forced into bankruptcy. The NCFE criminal proceedings were the largest healthcare fraud case brought and there is still an ongoing grand jury investigation. Mr. Shanahan holds a B.A. from Oberlin College, an M.B.A. from Cornell University, Johnson Graduate School of Management, and an M.S. from Bentley College. He is a member of the American Institute of Certified Public Accountants, the Financial Executives Institute, and the New Hampshire Society of Certified Public Accountants.

Robert G. Coffill, Jr. Mr. Coffill was elected to the Company s Board of Directors on August 31, 2006. Mr. Coffill has been the Senior Vice President of Field Operations and member of the Board of Directors of Medical Solutions Management, Inc. from April, 2005 to the present. Prior thereto, from July 2004 to April 2005, Mr. Coffill served as manager in the New England region for Ortho Rehab, Inc., a manufacturer and distributor of continuous passive motion devices. From January 2000 to January 2002, Mr. Coffill formed, and served as the Chief Executive Officer of, a construction staffing company in New York. He also serves as a Director of WiFiMed Holdings Company, Inc. From 1978 to 2000 Mr. Coffill had a career in education, serving as a principal and then a superintendent in five school districts located in urban, suburban, and rural environments with school populations ranging from 900 to 3,200 students. Mr. Coffill earned a B.S. from North Adams State College, a Masters in Education from Salem State College and a C.A.E.S from the Boston College Advanced Executive School Management Program.

Marshall S. Sterman. Mr. Sterman was elected to the Company s Board of Directors on October 16, 2006. Mr. Sterman is currently the Chief Executive Officer and President of The Mayflower Group, Ltd., a Boston, Massachusetts based consulting company, where he has been employed since 1986. Since March, 2007, he has also been Chairman and President of Aquamer, Inc. which is a development stage public company with technology in the fields of dermatology and urinary incontinence. He also serves as a director of Net Currents, Inc. and Chairman of Medical Solutions Management, Inc. and WiFiMed Holdings Company, Inc. He previously served as managing partner of Cheverie and Company and MS Sterman & Associates, both merchant banking firms, and president of Sterman & Gowell Securities, an investment banking and securities firm. During his over 40 years of investment banking/corporate finance experience, Mr. Sterman has assisted businesses in obtaining financing as a principal of a registered broker-dealer as a merchant banker and as a consultant. Mr. Sterman served as an officer in the US Navy and holds his B.A. from Brandeis University and his M.B.A. from Harvard University.

Robert A. Baron. Mr. Baron was elected to the Company s Board of Directors on November 13, 2006. Mr. Baron presently serves as a member of the board of directors of three publicly traded companies, Nanosenors, Inc., Hemobiotech, Inc. and opko, Inc. Nanosensors is company developing an internet video console gaming gambling service. Hemobiotech is a development stage biotechnology company; and opko is a clinical stage biopharmaceutical business. From 1998 to August 2004, he served as President of Cash City Inc., a payday advance and check cashing business. Previously, Mr. Baron served as President of East Coast Operations of CSS/TSC, a subsidiary of Tultex, Inc., a New York Stock Exchange listed company engaged in the manufacturing of activewear products, such as t-shirts, and as Chairman of T-Shirt City Inc., a company engaged in the distribution of activewear products.

Mr. Baron received his B.S. degree from Ohio State University. Mr. Baron was a limited partner in Meyers Associates, LP from February 2002 until July 2006. Meyers Associates, LP is currently serving as our financial advisor and is a FINRA member firm.

Board of Directors Committees and Meetings

During the year ended December 31, 2007, our Board of Directors held seven meetings which were attended by all directors and took action by written consent on nine occasions.

Vicis Capital Master Fund, as the holder of a majority of the Series D Preferred Stock, is entitled to nominate and elect a majority of the Company s Board of Directors until 50% of the Series D Preferred Stock has been converted into common stock. Pursuant to a Board of Directors resolution dated March 26, 2008, the number of directors of the Company was increased from four to seven and Vicis has the power to name the three new directors.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board (the Nominating Committee) currently consists of Robert A. Baron, Chairman, and Marshall Sterman, each of whom is independent as such term is defined in Rule 4200(a)(15) of the Nasdaq listing standards, as amended. The Nominating Committee held one meeting during the fiscal year ended December 31, 2007. The Nominating Committee evaluates the appropriate size of the Board, recommends a change in the composition of members of the Board to reflect the needs of the business, interviews prospective candidates, makes recommendations to the Board as to the nominees for directors, and formally proposes the slate of directors to be elected at each Annual Meeting of the Stockholders. A current copy of the Nominating Committee s charter was filed with the Company s Form 10-KSB on March 30, 2007.

Although the Nominating Committee does not establish minimum qualifications for director candidates, it will

consider, among other factors:

- Broad experience, diversity,
- Wisdom and integrity,
- Judgment and skill,
- Understanding of the Company s business environment,
- Experience with businesses and other organizations of comparable size,
- Ability to make independent analytical inquiries,
- The interplay of the candidate s experience with the experience of other Board members,
- The extent to which the candidate would be a desirable addition to the Board and any committees of the Board, and
- Willingness to devote adequate time to the Board.

The Nominating Committee will consider all director candidates recommended by stockholders. Any stockholder who desires to recommend a director candidate may do so in writing, giving each recommended candidate s name, biographical data, and qualifications, by mail addressed to the Chairman of the Nominating Committee, in care of Andover Medical, Inc.: Attention: Secretary. A written statement from the candidate consenting to being named as a candidate and, if nominated and elected, to serve as director, must accompany any stockholder recommendation. Members of the Nominating Committee will assess potential candidates on a regular basis.

Compensation Committee

The Compensation Committee of the Board currently consists of Robert Coffill, Jr., Chairman, and Marshall Sterman, each of whom is independent as such term is defined in Rule 4200(a)(15) of the Nasdaq listing standards, as amended. The Compensation Committee held two meetings during the fiscal year ended December 31, 2007. The Committee makes recommendations to the Board as to the salaries of the CEO and President, sets the salaries of the other elected officers and reviews salaries of certain other senior executives. It grants incentive compensation to elected officers and other senior executives and reviews guidelines for the administration of the Company s incentive programs. The Compensation Committee also reviews and approves or makes recommendations to the Board on any proposed plan or program which would benefit primarily the senior executive group.

Audit Committee

The Audit Committee of the Board currently consists of Marshall Sterman, as Chairman, Robert Coffill, Jr. and Robert A Baron, each of whom is independent as such term is defined in Rule 4200(a)(15) of the Nasdaq listing standards, as amended. The Board has determined that Marshall Sterman is an audit committee financial expert as defined by Item 407(d) of Regulation S-K. The Audit Committee did not meet separately during the fiscal year ended December 31, 2007. Each year it will recommend the appointment of a firm of independent public accountants to examine the financial statements of the Company and its subsidiaries for the coming year. In making this recommendation, it reviews the nature of audit services rendered, or to be rendered, to the Company and its subsidiaries. The Audit Committee reviews with representatives of the independent public accountants the auditing arrangements and scope of the independent public accountants examination of the financial statements, results of those audits, their fees and any problems identified by the independent public accountants regarding internal accounting controls, together with their recommendations. It also meets with the Company s financial management to review reports on the functioning of the Company s programs for compliance with its policies and procedures regarding ethics and those regarding financial controls and internal auditing. This includes an assessment of internal controls within the Company and its subsidiaries based upon the activities of the Company s internal auditing staffs, as well as an evaluation of the performance of those staffs. The Audit Committee is also prepared to meet at any time upon request of the independent public accountants or the Company s financial management to review any special situation arising in relation to any of the foregoing subjects. Pursuant to the rules mandated by the SEC and the Nasdaq listing standards, as amended, the Board has adopted an Audit Committee Charter which sets forth the composition of the Audit Committee, the qualifications of Audit Committee members and the responsibilities and duties of the Audit Committee. A current copy of the Company s Audit Committee Charter was filed with the Company s Form 10-KSB on March 30, 2007.

Andover Medical Advisory Boards

During October and November of 2006, the Company formed Orthopedic and Podiatric Advisory Boards, each of whose purpose is to assist the Company in identifying strategic market opportunities and determining how best to address them.

Orthopedic Advisory Board, William Tobin, Chairman

William Tobin, Chairman of the Orthopedic Advisory Board is president and founder of O.R.Specialties (ORS), an orthopedic surgical equipment distribution organization. ORS distributes to hospitals and surgery centers in the markets of Long Island, New York City, southern New York state, northern New Jersey, Connecticut, Rhode Island, and western Massachusetts. It provides on site technical service and consults with customers on everything from start up surgery centers to design of state of the art operating rooms. It also consults with surgeon customers on technical surgical procedures, as well as providing extensive training venues for multiple aspects of orthopedic medicine. Mr. Tobin was a principal of Ortho-Medical Products, Inc., a full service durable medical equipment, respiratory, orthotic and prosthetic company that services the markets of New York State, northern New Jersey, Connecticut, Rhode Island, and western Massachusetts, prior to its acquisition by the Company.

Also on the Board is Brian P. McKeon, M.D., who is the chief medical officer and head team physician of the Boston Celtics and has been with the Celtics organization for the past eight seasons. An internationally published author and presenter, Dr. McKeon is affiliated with a number of professional societies including the American Orthopedic Society of Sports Medicine and the Professional Team Physician s Society. He is currently participating in several clinical trials and has funded research studies in his primary research area, articular cartilage. Upon graduating cum laude from the University of Connecticut in 1988 with a BS in Biology, Dr. McKeon received his medical degree with honors from Georgetown University s School of Medicine. Following his residency and internship training with the University of Connecticut s Integrated Residency Program, he completed a Sports Medicine Fellowship at New England s Baptist Hospital in Boston. He is currently an assistant clinical professor of orthopedics at the Tufts University School of Medicine and a Sports Medicine Fellowship Instructor at New England Baptist Hospital.

Podiatric Advisory Board, Dr. Peter J. Bregman, Chairman

Dr. Peter J. Bregman, chairman of the Podiatry Advisory Board has been in private practice for 10 years and serves on the board of the American Association of Lower Extremity Peripheral Nerve Surgeons. His special interests include Peripheral Neuropathy and Pediatric foot problems. He is active in teaching, lecturing, and writing for scientific journals. His credentials include a doctor of podiatric medicine from the Temple School of Podiatric Medicine (1994); chief resident at Cambridge Hospital; Tufts University Achievement of Excellence (2002); and Cambridge Residency Program Attending Physician of the Year (2003).

Code of Ethics

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, that is designed to comply with Item 406 of Regulation S-K. A copy of the Company s Code of Ethics will also be furnished, without charge, in print to any person who requests such copy by writing to the Corporate Secretary, 510

Turnpike Street, Ste. 204, North Andover, MA 01845.

Certain Relationships and Related Transactions

On March 29, 2007, the Company completed a private financing of an aggregate of $5,612,492 principal amount of 6% Series A Convertible Preferred Stock. Included in this amount is $1 million principal amount purchased by Vicis Capital Master Fund (Vicis). The Company had no prior relationship with Vicis. Vicis acquired Series A Convertible Preferred Stock convertible at $.35 per share into 2,857,000 shares of Common Stock; Class A Warrants to purchase 2,857,000 shares of Common Stock at $.35 per share and Class B Warrants to purchase 2,857,000 shares of Common Stock at $.35 per share. See Description of Securities.

On May 3, 2007 and September 10, 2007, the Company completed a private financing of $1,700,000 and $500,000 principal amount, respectively, of 6% Series B Convertible Preferred Stock solely to Vicis. The Series B Convertible Preferred Stock is convertible at $.35 per share into an aggregate of 6,285,400 shares of Common Stock; together with Class C Warrants exercisable for five years at $.35 per share to purchase 6,285,400 shares of Common Stock and Class D Warrants exercisable for five years at $.35 per share to purchase 6,285,400 shares of Common stock.

Pursuant to the Registration Rights Agreement entered into with the Company in connection with the Series B Offering, the Company was obligated to file this Registration Statement with the SEC within 30 days from the final closing date of the Series B Offering and have it declared effective by the SEC by June 19, 2008, which is 6 months from the effective date of the initial registration statement filed for the Series A Offering. In the event the Company does not meet theses deadlines the Company shall automatically increase the number of shares of Common Stock issuable upon exercise of the Class C and D Warrants to twice the original 12,570,800 shares.

On March 28, 2008, the Company completed the sale of an aggregate of $2,000,000, 8% Series D Convertible Preferred Stock to Vicis convertible at the holder s options at $.35 per share into an aggregate of 5,714,000 shares of Common Stock (the Underlying Common Stock). For every share of underlying Common Stock issuable, the Company issued to the holders of Series D Preferred Stock, one Class E Common Stock Purchase Warrant (E Warrant) to purchase three (3) shares of Common Stock, or an aggregate of 17,142,858 shares exercisable for a period of ten (10) years expiring March 28, 2018 at a price of $.35 per share. The holders of the Series D Preferred Stock entered into a Security Agreement with the Company and have a lien on all of the Company s properties and assets.

Vicis, as the holder of a majority of the Series D Preferred Stock, is entitled to nominate and elect a majority of the Company s Board of Directors until 50% of the Series D Preferred Stock has been converted into common stock. Pursuant to a Board of Directors resolution dated March 26, 2008, the number of directors of the Company was increased from four to seven and Vicis has the power to name the three new directors.

Andover Medical, Inc. was originally formed in the Commonwealth of Massachusetts on April 16, 2003 under the name Snow & Sail Sports, Inc. and reincorporated in Delaware in September 2005. On August 31, 2006, AMI entered into a reorganization agreement (the Reorganization Agreement) pursuant to which the Company spun off its existing business, replaced its management and changed its corporate name and business (the Transaction). The following steps were taken in connection with the Transaction:

- the Company effected a 28.5-for-1 forward stock split whereby 460,000 pre-forward split registered shares of its common stock (Common Stock) held by approximately 42 non-affiliates (the Non-Affiliates) of the Company were converted into 13,110,000 post-forward split registered shares (the Post-Forward Split Registered Shares);

- all of the Company s issued and outstanding shares of registered and restricted Common Stock (other than the Post-Forward Split Registered Shares) were cancelled;

- in exchange for $10 and other valuable consideration, 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. As part of the Reorganization Agreement, the principals of Andover Management Services, Inc. (AMSI) transferred to the Company all right, title and interest in the business of AMSI, including, but not limited to, letters of intent for acquisitions, an office lease, office furniture and cash;

- Paul F. Tetreault and John P. Greeley, representing 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;

- the Company s former business (including all of its assets and liabilities), which involved providing one-day ski trips within the New England area, was spun off prior to the Transaction to former management;

- the Company issued an aggregate of 2,500,000 stock options to purchase an equivalent number of shares of its restricted Common Stock to the Company s then sole officer: Edwin A. Reilly (1,250,000) and its then and sole director Robert G. Coffill, Jr. (1,250,000); and

- the Company changed its name from Snow & Sail Sports, Inc. to Andover Medical, Inc.

In connection with the Transaction, the Company issued an aggregate of 10,000,000 restricted shares of its Common Stock to management and certain affiliates in exchange for $10 and other valuable consideration, pursuant to the Reorganization Agreement. Included in this issuance was 3,000,000 shares subsequently assigned to Frank Magliochetti plus 2,000,000 shares transferred by Mr. Magliochetti to two irrevocable trusts for his two daughters, over which 2,000,000 shares Mr. Magliochetti has no beneficial ownership.

See Employment Agreements below for information on stock options granted to an employment agreement entered into by the Company with Edwin A. Reilly, in 2006.

See 2006 Employee Stock Incentive Plan below for information on stock options granted by the Company to Frank Magliochetti, Edwin A. Reilly, Robert G. Coffill, Jr., Marshall Sterman, and Robert A. Baron.

None of our directors or officers, nor any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to all of our outstanding shares, nor any promoter, nor any relative or spouse of any of the foregoing persons, has any material interest, direct or indirect, in any presently proposed transaction which, in either case, has or will materially affect us.

Our management is involved in other business activities and may, in the future, become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between our business and their other business interests. In the event that a conflict of interest arises at a meeting of our directors, a director who has such a conflict will disclose his interest in a proposed transaction and will abstain from voting for or against the approval of such transaction.

Executive Compensation

The following table shows information concerning all compensation paid for services to the Company in all capacities during the year ended December 31, 2007 or accrued within the current fiscal year as to the Chief Executive Officer, Chief Financial Officer, and each of the other three most highly compensated executive officers of the Company who served in such capacity at the end of the last fiscal year (the Named Executive Officers) whose total annual salary and bonus exceeded $100,000:

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Com-pensation ($)	Non-qualified Deferred Compen-sation Earnings ($)	All Other Compen-sation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)(1)	(g)	(h)	(i)	(j)
Edwin A. Reilly, current Chief Executive Officer, Chief Operating Officer, and Chairman of the Board	12/31/07	$ 156,150(2)	$ 50,000(3)		$ 298,478(4)			$ 11,538(5)	$ 516,166
James A. Shanahan, Chief Financial Officer and Secretary	12/31/07	$ 135,692(6)	$ 16,250(7)		$ 57,799(8)				$ 209,741
Frank P. Magliochetti, former Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Chairman of the Board	12/31/07	$ 92,308(9)	(10)		$ 654,857(11)			$ 6,231(10)	$ 753,396

(1) Please see the discussion of relevant FAS 123R valuation assumptions contained in the notes to the Company s most recent financial statements.

(2) Pursuant to his Employment Agreement, dated December 20, 2006, Edwin Reilly received an annual base salary of $150,000. On September 3, 2007, his salary was raised to $170,000.

(3) Mr. Reilly is eligible for an annual bonus in an amount up to 50% of his base salary paid quarterly based on the achievement of corporate objectives relating to the Company s performance.

(4) Mr. Reilly was awarded stock options under his Employment Agreement to purchase 700,000 shares of Common Stock on December 20, 2006, and shall be granted options to purchase 700,000 shares on the first and second anniversary dates of his contract, with each option vesting over a 12-month period from the date of grant. The Board determined that the exercise prices of $0.38 and $0.27 per share was equal to the fair market value on December 27, 2006 and January 2, 2008, respectively. The option to be granted in 2008 shall be granted at the then fair market value. Mr. Reilly received stock options to purchase 1,250,000 shares of Common Stock at an exercise price of $0.06 per share in accordance with the 2006 Employee Stock Incentive Plan, adopted on August 31, 2006.

(5) Includes automobile allowance of $1,000 per month.

(6) Pursuant to his Employment Agreement, dated September 11, 2007, James Shanahan receives an annual base salary of $150,000.

(7) Mr. Shanahan is eligible for an annual bonus of up to 25% of his base salary based upon the achievement of corporate objectives relating to the Company s performance.

(8) Mr. Shanahan has been awarded stock options to purchase 300,000 shares of Common Stock, at $.41 per share the fair market value on September 11, 2007 with such option vesting over a 36-month period from the date of grant. Mr. Shanahan was previously awarded stock options to purchase 225,000 shares of Common Stock on January 22, 2007, with each option vesting over a 36-month period from the date of grant.

(9) Pursuant to his Employment Agreement, dated December 20, 2006, Mr. Magliochetti was to receive an annual base salary of $200,000.

(10) Mr. Magliochetti was eligible for an annual bonus (in cash or stock) in an amount up to 50% of his base salary paid quarterly based on the achievement of corporate objectives relating to the Company s performance.

(11) 6,500,000 shares of common stock at market price vesting over 30 days from 12/20/06. The Board determined the exercise price of $0.38 per share is equal to the fair market value on December 27, 2006. Following his resignation from the Company, Mr. Magliochetti rescinded options to purchase 4 million shares of common stock and forfeited his remaining stock options. See 2006 Employee Stock Incentive Plan below.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
(a) Name	(b) Number of Securities Underlying Unexercised Options (#) Exercisable	(c) Number of Securities Underlying Unexercised Options (#) Unexercisable	(d) Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options(#)	(e) Option Exercise Price ($)	(f) Option Expiration Date	(g) Number of Share or Units of Stock That Have Not Vested	(h) Market Value of Shares or Units of Stock That Have Not Vested	(i) Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	(j) Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Edwin A. Reilly	1,250,000	0	0	$ 0.06	8/31/16				
Edwin A. Reilly	700,000	0	0	$ 0.38	12/27/16				
James A. Shanahan	225,000	150,000	0	$ 0.60	1/22/08				
James A. Shanahan	300,000	266,667	0	$ 0.41	9/11/10				

Director Compensation

Name	Fees Earned or Paid in Cash	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Robert G. Coffill, Jr.	$ 15,000	$ 83,164					$ 98,164
Marshall Sterman	$ 15,000	$ 28,497					43,497
Robert A. Baron	$ 15,000	$ 28,497					43,497

Employment Agreements

On December 20, 2006, we entered into an employment agreement with Edwin A. Reilly for Mr. Reilly to serve as the Company s President and Chief Operating Officer (COO). On March 9, 2007 Ms. Reilly was elected to serve as the Company s Chief Executive Officer and Chairman of the Board. Pursuant to his employment agreement Mr. Reilly received an annual base salary of $150,000 and is eligible for an annual bonus of up to 50% of his base salary based upon the achievement of corporate objectives relating to the Company s performance. Effective September 3, 2007, Mr. Reilly s annual base salary increased to $170,000. The term of Mr. Reilly s employment agreement is for three years commencing August 31, 2006, and will automatically renew for additional one year terms unless notice of non-renewal is provided in accordance with the agreement. The Company may terminate the employment agreement for Cause (as defined) or one year s prior notice. Mr. Reilly has been awarded stock options to purchase 700,000 shares of Common Stock on December 20, 2006 and January 2, 2008 and shall be granted options to purchase 700,000 shares on December 20, 2008, at then fair market value with each option vesting over a 12-month period from the date of grant.

Mr. Reilly will participate in the Company s benefit programs and shall also be provided with the use of an automobile or an automobile allowance, the cost of either of which shall not exceed $1,000.00 per month.

On September 11, 2007, we entered into an employment agreement with James Shanahan for Mr. Shanahan to serve as the Company s Chief Financial Officer. In January 2007, Mr. Shanahan was appointed to serve as the Company s Vice President of Administration and Secretary. Pursuant to his employment agreement, Mr. Shanahan receives an annual base salary of $150,000 and is eligible for an annual bonus of up to 25% of his base salary based upon the achievement of corporate objectives relating to the Company s performance. The term of the agreement is for two years commencing September 11, 2007. The Company may terminate the agreement for Cause (as defined). In the event his employment is terminated without Cause, Mr. Shanahan will be entitled to receive an amount equal to six months of his base salary. Mr. Shanahan has been awarded stock options to purchase 300,000 shares of Common Stock, at $.41 per share, the fair market value on September 11, 2007 with such option vesting over a 36-month period from the date of grant. Mr. Shanahan will participate in the Company s benefit programs.

2006 Employee Stock Incentive Plan

The Company s 2006 Employee Stock Incentive Plan (the 2006 Plan) was filed with the Company s Form 8-K on November 14, 2006. The Board of Directors adopted amendments to the 2006 Plan on December 27, 2006 in order to motivate participants by means of stock options and restricted stock to achieve the Company s long-term performance goals and enable our employees, officers, directors and consultants to participate in our long term growth and financial success. The 2006 Plan, which is administered by our Board of Directors, authorizes the issuance of a maximum of 15,000,000 shares of our common stock, which may be authorized and unissued shares or treasury shares. The Employment Agreement Options (as defined below) and Directors Options (as defined below) shall be deemed Incentive Stock Options (as defined in the 2006 Plan) to the maximum extent permitted by Section 422 of the Internal Revenue Code including a five-year limit on exercise for 10% or greater stockholders with any excess grant to the above individuals over the limits set by Section 422 being Non-Qualified Stock Options as defined in the 2006 Plan. Both the Incentive Stock Options or any Non-Qualified Stock Options must be granted at an exercise price of not less than the fair market value of shares of Common Stock at the time the option is granted and Incentive Stock Options granted to 10% or greater stockholders must be granted at an exercise price of not less than 110% of the fair market value of the shares on the date of grant. If any award under the 2006 Plan terminates, expires unexercised, or is cancelled, the shares of Common Stock that would otherwise have been issuable pursuant thereto will be available for issuance pursuant to the grant of new awards. The 2006 Plan will terminate on December 27, 2016.

On August 31, 2006, the Company granted a total of 2,500,000 Incentive Stock Options valued at $162,956, including 1,250,000 options to each of Edwin A. Reilly, then its sole officer, and Robert G. Coffill, Jr., then its sole director. The options expire 10 years from the date of issuance and have an exercise price of $.06 per share. One twelfth of the options shall vest and be exercisable on the last day of each month over a 12-month period starting with September 30, 2006, subject to acceleration in the event of a Material Transaction (as defined in the 2006 Plan).

On December 27, 2006, the Board of Directors granted Edwin Reilly, then the Chief Operating Officer, options under the Employment Agreement referenced above in the Employment Agreement section (the Employment Agreement Options) providing for the purchase of 700,000 shares of the Company s Common Stock under the 2006 Plan. The Board determined the exercise price of $0.38 per share of Common Stock equaled 100% of the fair market value per share as of December 27, 2006. The shares underlying the Employment Agreement Options to Edwin Reilly shall be vested and exercisable in 12 equal installments ending on December 20, 2007. Pursuant to his Employment Agreement, Edwin Reilly shall be granted additional options to purchase 700,000 shares on each of December 20, 2007 and December 20, 2008, with each option vesting over a 12 month period from the date of grant;

On December 27, 2006, the Board of Directors granted options (the Directors Options) to acquire 225,000 shares of the Common Stock to each of Robert G. Coffill, Marshall Sterman, and Robert A. Baron (the Directors) under the 2006 Plan. The Directors Options for each of the Directors shall be vested and exercisable in 36 equal monthly installments ending on December 20, 2009. The Board determined the exercise price of $0.38 per share equaled 100% of the fair market value per share of Common Stock as of December 27, 2006.

On January 22, 2007, the Board of Directors granted options to acquire 225,000 shares of Common Stock to James A. Shanahan under the 2006 Plan. These options shall be vested and exercisable in 36 equal monthly installments. The Board determined that the exercise price of $.60 per share equaled 100% of the fair market value per share of Common Stock as of January 22, 2007.

On September 11, 2007, the Board of Directors granted options to acquire 300,000 shares of Common Stock to James A. Shanahan under the 2006 Plan. These options shall be vested and exercisable in 36 equal monthly installments. The Board

determined the exercise price of $0.41 per share equaled 100% of the fair market value per share of Common Stock as of September 11, 2007.

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our issued and outstanding common stock by each director, the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the other named executive officers, all officers and directors of the Company as a group, and beneficial owners of more than five percent of the issued and outstanding shares of Common Stock.

Name of Beneficial Owner	Title of Class	Total Number of Shares Owned Beneficially(1)	Percent of Class Before Sale(1)
Edwin A. Reilly(2)	Common Stock	2,313,170(3)	6.3%
Robert G. Coffill, Jr.(2)	Common Stock	1,427,678(4)(11)	4.0%
James Shanahan(2)	Common Stock	324,997(5)	*
Marshall Sterman(2)	Common Stock	106,250(11)	*
Robert A. Baron(2)	Common Stock	106,250(11)	*
Frank Magliochetti(6)	Common Stock	3,000,000(7)	8.6%
Bruce Meyers(8)	Common Stock	7,184,791(9)	18.5%
Meyers Associates, LP(8)(10)	Common Stock	5,684,791(9)	14.6%
Maraline International Ltd.(12)	Common Stock	1,825,166(13)	5.0%
Roger Nesbitt(14)	Common Stock	3,002,397(15)	8.0%
Odett Holding Ltd.(12)	Common Stock	2,302,447(16)	6.2%
TriCounty Grain Corp.(17)	Common Stock	2,071,563(18)	5.6%
Greville EM Vernon(19)	Common Stock	1,825,166(13)	5.0%
James Muir Drummond(20)	Common Stock	6,844,371(21)	16.5%
Eusibio Mario Lopez Perez(20)	Common Stock	3,194,040(23)	8.4%
Vicis Capital Master Fund(24)	Common Stock	51,593,172(25)	59.7%
Hjortur Eiriksson(26)	Common Stock	7,097,158(27)	17.0%
Otto Bock Healthcare L.P.(28)	Common Stock	5,300,353(29)	15.3%
Total number of shares owned by directors and officers as a group (5 persons)	Common Stock	4,278,345(3)(4)(5)(11)	11.1%

* Less than 1% of the issued and outstanding shares.

(1) Except as otherwise noted in the footnotes to this table, the named person owns directly and exercises sole voting and investment power over the shares listed as beneficially owned by such person. Includes any securities that such person has the right to acquire within sixty days pursuant to options, warrants, conversion privileges or other rights. On March 17, 2008, there were 34,846,224 shares of our common stock issued and outstanding. As of that date, (i) 15,000,000 shares of Common Stock were reserved for issuance under our 2006 Plan of which 7,300,000 options had been granted, in the aggregate; and (ii) approximately 22,321,170 shares of our common stock were reserved for issuance pursuant to conversion of preferred stock and approximately 44,642,843 shares reserved for issuance pursuant to exercise of warrants to purchase common stock.

(2) The mailing address of this person is c/o Andover Medical, Inc., 510 Turnpike Street, Ste. 204, N. Andover, MA 01845.

(3) Includes 2,241,670 shares of Common Stock underlying stock options held by this person that are currently exercisable.

(4) Includes 1,356,250 shares of Common Stock underlying stock options that are held by this person that are currently exercisable.

39

(5) Includes 174,997 shares of Common Stock underlying stock options that are held by this person that are exercisable within the next 60 days; however, does not include 350,003 shares of Common Stock underlying stock options that are not currently exercisable.

(6) The mailing address of this person is 61 Mill Pond, North Andover, MA 01845.

(7) Does not include 2,000,000 shares transferred by Mr. Magliochetti to two irrevocable trusts for his two daughters over which shares Mr. Magliochetti disclaims beneficial ownership. Peter S. Johnson, Esq., is the trustee who holds voting and dispositive power with respect to the 2,000,000 shares of Common Stock.

(8) The mailing address of this person is Meyers Associates LP, 45 Broadway, New York, NY 10006.

(9) Includes 1,500,000 shares owned by Mr. Meyers and an additional 1,500,000 shares and 4,184,791 shares issuable upon full exercise of a unit purchase option to purchase Units of the Company s securities owned by Meyers Associates LP, of which Mr. Meyers is President. Unit purchase options to purchase an aggregate of 15.625 Units in connection with the Company s Offering of which 5.86 Units (2,511,303 underlying shares) were assigned to employees and other designees by Meyers Associates.

(10) Voting and disposition power with respect to the shares owned by this stockholder is held by Bruce Meyers, President.

(11) Pursuant to the 2006 Plan, as amended, Robert G. Coffill, Jr., Marshall Sterman and Robert A. Baron each were granted options to purchase 225,000 shares of Common Stock that vest in 36 equal installments ending on December 20, 2009, including 106,250 shares that are currently exercisable.

(12) The address of this person is Hlidarsmari 9, 200 Kapavogur, Iceland. Voting and disposition power with respect for the Shares are held by Hjortur Eiriksson, Director.

(13) Consists of 571,400 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 571,400 shares of Common Stock issuable upon exercise of Class A Warrants and 571,400 shares of Common Stock issuable upon exercise of Class B Warrants; 68,571 shares granted as a 6% annual dividend (Dividend Shares) and 42,394 shares issuable upon payment of penalties for the delay in the Effective Date of the Company s Form SB-2 Registration Statement declared effective on December 19, 2007 (Penalty Shares).

(14) The address of this person is 1904 West Louise Dr., Grand Island, Nebraska 68803.

(15) Consists of 939,953 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 939,953 shares of Common Stock issuable upon exercise of Class A Warrants; 939,953 shares of Common Stock issuable upon exercise of Class B Warrants; 112,800 Dividend Shares; and 69,738 Penalty Shares.

(16) Consists of 720,821 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 720,821 shares of Common Stock issuable upon exercise of Class A Warrants; 720,821 shares of Common Stock issuable upon exercise of Class B Warrants; 86,503 Dividend Shares; and 53,481 Penalty Shares.

(17) The address of this person is 400 4th Street, Eldon, Iowa 52554. Voting and disposition power with respect to the Shares are held by Robben Franklin, Manager & Vice President.

(18) Consists of 648,539 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 648,539 shares of Common Stock issuable upon exercise of Class A Warrants; 648,539 shares of Common Stock issuable upon exercise of Class B Warrants; 77,829 Dividend Shares; and 48,117 Penalty Shares.

(19) The address of this person is Bowldown Farms Ltd., Tetbury, Gloucestershire, BL8 8UD, UK.

(20) The address of this person is 320 Branard Street, Houston, Texas 77006-5014.

(21) Consists of 2,142,750 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 2,142,750 shares of Common Stock issuable upon exercise of Class A Warrants; 2,142,750 shares of Common Stock issuable upon exercise of Class B Warrants; 257,143 Dividend Shares; and 158,978 Penalty Shares.

(22) The address of this person is PO Box N8174, Nassau, Bahamas.

(23) Consists of 999,950 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 999,950 shares of Common Stock issuable upon exercise of Class A Warrants; 999,950 shares of Common Stock issuable upon exercise of Class B Warrants; 120,000

Dividend Shares; and 74,190 Penalty Shares.

(24) The address of this person is c/o Vicis Capital LLC, 126 East 56th Street, 7th Floor, New York, NY 10022. Voting and disposition power with respect to the Shares are held by Shad L. Stastney, Partner, Vicis Capital, LLC.

(25) Includes 2,857,000 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 2,857,000 shares of Common Stock issuable upon exercise of Class A Warrants and 2,857,000 shares of Common Stock issuable upon exercise of Class B Warrants; 342,857 Dividend Shares; and 211,971 Penalty Shares relating to the Series A Preferred Stock Offering. Also includes 6,285,400 shares of Common Stock issuable upon conversion of Series B Preferred Stock; 6,285,400 shares of Common Stock issuable upon exercise of Class C Warrants and 6,285,400 shares of Common Stock issuable upon exercise of Class D Warrants and 754,286 Series B Dividend Shares. Includes 5,714,000 shares of Common Stock issuable upon conversion of Series D Preferred Stock and 17,142,858 shares of Common Stock issuable upon exercise of Class E Warrants. Does not include 12,570,800 Penalty Shares if this registration statement is not declared effective on a timely basis.

(26) The address of this person is Hlidarsmari 9, 200 Kapavogur, Iceland.

(27) Includes 285,700 shares of Common Stock issuable upon conversion of Series A Preferred Stock; 285,700 shares of Common Stock issuable upon exercise of Class A Warrants and 285,700 shares of Common Stock issuable upon exercise of Class B Warrants all held in the name of Hjortur Eiriksson; 34,286 Dividend Shares and 21,197 Series A Penalty Shares. Also includes an aggregate of 916,233 shares issuable upon conversion of Series A Preferred Stock and exercise of Class A Warrants and Class B Warrants beneficially held by Gion, Ltd., 1,825,166 shares held by Maraline International Ltd., 2,302,447 shares held by Odett Holding, Ltd. and 1,140,729 shares held by SLR Ltd., over which Hjortur Eiriksson exercises voting and/or dispositive power.

(28) The address of the person is Two Carlson Parkway, Suite 100, Minneapolis, MN 55447. Voting and disposition power with respect to these shares is held by Elbert P. Harman, CEO.

(29) These shares were issued pursuant to the terms of a settlement agreement. If and when Otto Bock receives $1,000,000 in net proceeds, all remaining shares then held by Otto Bock shall be returned to the Company.

SELLING STOCKHOLDERS

This Offering consists of an aggregate of 36,415,073 shares of our common stock (collectively referred to in this section as the Shares) issuable upon the conversion of Series A Preferred Stock, Series B Preferred Stock and the Exercise of Class A Warrants and Class B Warrants, inclusive of all dividends to be earned for two years from the date of issuance, on shares of Series A Preferred Stock registered hereby; shares issued to Otto Bock HealthCare in settlement of threatened litigation; and shares issued to the former shareholder of two acquired companies, all of which may be offered for sale and sold pursuant to this Prospectus by the Selling Stockholders. The Shares are to be offered by and for the respective accounts of the Selling Stockholders. We have agreed to register all of the Shares under the securities act for resale by the Selling Stockholders and to pay all of the expenses in connection with such registration and sale of the Shares, other than underwriting discounts and selling commissions and the fees and expenses of counsel and other advisors to the Selling Stockholders. We will not receive any proceeds from the sale of the Shares by the selling stockholders.

Information with respect to the Selling Stockholders and the shares of our Common Stock held by them and those Shares being offered for sale pursuant to this prospectus is set forth in the following Table. None of the Selling Stockholders has had any material relationship with us within the past three years, except as noted above or in the Notes to the following table.

	Number of Shares Owned Prior to Sale	No. of Shares Outstanding being Offered for Sale	No. of Shares Underlying Preferred Stock and Warrants being Offered for Sale (1)	Amount and Nature of Beneficial Ownership Before and After the Sale of the Shares Being Offered Percentage (2) Before	After
Selling Stockholder					
Gary T. Algier	267,416		267,416	0.9%	0.0%
Kurt Baum	276,333		276,333	0.9%	0.0%
Robert Bowman					