

## **ISSUER INFORMATION FILE**

### **BioElectronics Corporation**

UNAUDITED FINANCIAL STATEMENT

PERIOD ENDING September 30, 2009

Un-Audited financial statements for BioElectronics Corporation for the period ending September 30, 2009 have been prepared by management. Accordingly, the financial statements have not been reviewed by independent auditors and do not include all of the information and footnotes required by generally accepted accounting principals for complete financial statements.

Trading Symbol: BIEL  
CUSIP Number: 09062H108

BioElectronics Corporation  
Balance Sheets

ASSETS

	September 30, 2009	September 30, 2008
<b>CURRENT ASSETS</b>		
Cash	\$ 688,595	\$ 4,956
Accounts Receivable, Net	320,985	221,273
Inventory	240,170	109,396
Prepaid Expenses	23,096	218,180
<b>TOTAL CURRENT ASSETS</b>	<b>1,272,846</b>	<b>553,805</b>
<b>MACHINERY AND EQUIPMENT, net</b>	<b>36,266</b>	<b>34,905</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,309,112</b>	<b>\$ 588,710</b>

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 76,596	\$ 347,682
Accrued Expense	15,300	-
Accrued Interest	-	294,797
Current Portion of Note Payable	-	185,203
Deposit	-	74,616
Related Party Notes Payable	1,618,039	679,029
<b>TOTAL LIABILITIES</b>	<b>1,709,935</b>	<b>1,581,327</b>
<b>LONG-TERM LIABILITIES</b>		
Related Party Notes Payable, Net of Current Portion	-	-
Note Payable	-	268,339
Capital Lease Obligation	-	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>-</b>	<b>268,339</b>
<b>TOTAL LIABILITIES</b>	<b>1,709,935</b>	<b>1,849,666</b>
<b>STOCKHOLDERS' DEFICIENCY</b>		
Common Stock, Par Value \$.001 Per Share, 1.5 Billion Shares		
Authorized	1,333,574	183,999
Additional Paid-In Capital	8,132,211	7,400,202
Accumulated Deficit	(9,866,608)	(8,845,157)
<b>TOTAL STOCKHOLDERS' DEFICIENCY</b>	<b>(400,823)</b>	<b>(1,260,956)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>	<b>\$ 1,309,112</b>	<b>\$ 588,710</b>

BioElectronics Corporation  
Statements of Operations

	September 30	
	2009	2008
SALES	\$ 715,015	\$ 664,976
COST OF GOODS SOLD	190,421	274,413
GROSS PROFIT	524,594	390,563
OPERATING EXPENSES		
General and Administrative	572,491	762,453
Design & Development	53,346	69,713
Selling Expenses	19,665	305,214
	645,502	1,137,380
LOSS FROM OPERATIONS	(120,908)	(746,817)
OTHER INCOME (EXPENSES)		
Other	131,038	(70,415)
	131,038	(70,415)
NET INCOME (LOSS)	\$ 10,130	\$ (817,232)

## Statements of Cash Flows

	<u>Jan-Sep 09</u>	<u>Jan-Dec 08</u>
<b>OPERATING ACTIVITIES</b>		
Net Income	\$10,130	(\$1,581,850)
Adjustments to reconcile Net Income to net cash provided by operations:		
Accounts Receivable	(\$238,306)	\$139,183
Allowance for Uncollectible AR	\$0	\$0
Inventory	(\$177,579)	\$130,270
Prepaid Expenses	(\$14,805)	(\$1,513)
Accounts Payable	(\$330,555)	(\$99,360)
Accrued Interest Payable	(\$342,279)	\$4,287
Accrued Expenses	(\$243,450)	\$0
Deposit	(\$109,598)	\$109,616
Unissued Shares-Stock Grant	\$0	\$0
Net cash provided by Operating Activities	<u>(\$1,446,442)</u>	<u>(\$1,299,366)</u>
<b>INVESTING ACTIVITIES</b>		
Machinery & Equipment	(\$3,045)	(\$3,099)
Leasehold Improvement	(\$1,315)	(\$6,881)
Machinery & Equipment: Depreciation{76}	\$0	\$6,000
Security Deposits	\$900	\$0
Net cash provided by Investing Activities	<u>(\$3,460)</u>	<u>(\$3,980)</u>
<b>FINANCING ACTIVITIES</b>		
Capital Lease		
Notes Payable	(\$373,542)	(\$233,175)
Shareholder Loans	\$506,484	\$241,809
Shareholder Notes Payable	\$0	(\$339,567)
Common Stock	\$1,065,923	\$143,982
Paid-In Capital	\$884,314	\$1,509,316
Net cash provided by Financing Activities	<u>\$2,083,180</u>	<u>\$1,322,364</u>
Net cash increase for period	\$633,279	\$19,018
Cash at beginning of period	\$55,316	\$36,298
Cash at end of period	<u><u>\$688,595</u></u>	<u><u>\$55,316</u></u>

BioElectronics Corporation  
Statements of Stockholders' Deficiency

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance at April 10, 2000 (Inception)	-	\$ -	\$ -	\$ -	\$ -
Net Loss	-	-	-	(34,124)	(34,124)
Contribution of Assets	-	-	8,000	-	8,000
Issuance of Common Stock for Services Rendered	22,150,000	22,150	(8,000)	(13,150)	1,000
Balance at December 31, 2000	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	-	-
Balance at December 31, 2001	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	-	-
Balance at December 31, 2002	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	(568,087)	(568,087)
Sale of Common Stock at \$.03 per share	3,950,000	3,950	112,100	-	116,050
Sale of Common Stock at \$.0496 per share	800,000	800	38,900	-	39,700
Sale of Common Stock at \$.35 per share	40,000	40	13,960	-	14,000
Balance at December 31, 2003	26,940,000	26,940	164,960	(615,361)	(423,461)
Net loss	-	-	-	(772,879)	(772,879)
Common Stock Dividend	15,800,577	15,800	-	(15,800)	-
Issuance of Common Stock for Services Rendered	2,245,649	2,246	110,036	-	112,282
Sale of Common Stock at \$.3540 per share	678,000	678	249,951	-	250,629
Sale of Common Stock at \$.4286 per share	149,333	149	63,851	-	64,000
Sale of Common Stock at \$.30 per share	83,333	83	24,917	-	25,000
Sale of Common Stock at \$.01 per share	5,020,000	5,020	45,180	-	50,200
Balance at December 31, 2004	50,916,892	50,916	658,895	(1,404,040)	(694,229)
Net loss	-	-	-	(1,914,053)	(1,914,053)
Warrants Issued in Connection with Financing Arrangement					542,460
Issuance of Common Stock for Services Rendered	2,128,000	2,128	777,542	-	779,670
Sale of Common Stock at \$.30 per share	3,420,000	3,420	1,022,580	-	1,026,000
Sale of Common Stock at \$.0833 per share	4,600,000	4,600	378,785	-	383,385
Sale of Common Stock at \$.0959 per share	800,000	800	75,912	-	76,712
Sale of Common Stock at \$.1475 per share	1,000,000	1,000	146,500	-	147,500
Balance at December 31, 2005 (Restated)	62,864,892	63,601	3,060,214	(3,318,093)	(225,603)
Net loss	-	-	-	(2,783,429)	(2,783,429)
Issuance of Common Stock for Services Rendered	6,799,856	6,800	472,903	-	479,733
Sale of Common Stock at \$.1667 per share	240,000	240	39,760	-	40,000
Conversion of Debt @ \$.10 per share	5,000,000	5,000	495,000	-	500,000
Sale of Common Stock at \$.10 per share	700,000	700	69,300	-	70,000
Balance at December 30, 2006	75,604,748	\$ 76,341	\$ 4,132,177	\$ (6,100,547)	\$ (1,919,299)
Net loss	-	-	-	(1,927,210)	(1,927,210)
Issuance of Common Stock for Services Rendered	5,555,000	5,555	119,645	-	125,200
Conversion of Debt @ \$.04696 per share	35,908,510	35,909	1,686,359	-	1,722,268
Balance at December 31, 2007	117,068,258	\$ 117,804	\$ 5,938,181	\$ (8,027,757)	(1,971,771)
Net loss	-	-	-	(1,848,813)	(1,848,813)
Issuance of Common Stock for Services Rendered	44,102,852	44,103	345,508	-	389,610
Sale of Common Stock at \$.005 per share	39,092,857	39,093	161,657	-	200,750
Conversion of Debt @ \$.013	66,650,331	66,650	797,551	-	864,202
Balance at December 31, 2008	266,914,298	\$ 267,651	\$ 7,242,897	\$ (9,876,739)	(2,366,191)
Net income	-	-	-	10,130	10,130
Issuance of Common Stock for Services Rendered	132,266,667	132,267	83,045	-	215,312
Sale of Common Stock at \$.00450571 per share	143,523,809	143,524	646,676	-	790,200
Conversion of Debt @ \$.0012033 per share	790,132,629	790,133	159,593	-	949,726
Balance at September 30, 2009	1,332,837,403	1,333,574	8,132,211	(9,866,609)	(400,824)

**BioElectronics Corporation**  
**Notes to Financial Statements**

**NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES**

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003. BioElectronics Corporation (the "Company") is a developer and marketer of drug-free, anti-inflammatory patches. The Company has U.S., FDA, Health Canada and European Union market clearance for its products.

The Company's first product, ActiPatch™ Therapy is a dermal patch with an embedded battery operated microchip that delivers weeks of continuous pulsed therapy. The patch delivery system and the Company's patented technology is a self-administered equivalent of the operator administered pulsed electromagnetic energy therapy used extensively world-wide for decades to reduce swelling, relieve pain and enhance the healing of post-surgical incisions, chronic wounds and orthopedic conditions.

The accompanying financial statements are those of a development stage company. The Company is currently engaged in and devotes considerable time to financial planning, raising capital, establishing sources of material supply and manufacturing subcontractors, recruiting and training sales personnel and establishing a market presence for its product. A significant market presence and sales account base has yet to be achieved.

The board of directors has the authority, without action by the Company's stockholders, to provide for the issuance of preferred stock in one or more classes or series and to designate the rights, preferences and privileges of each class or series, which may be greater than the rights of the common stock.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have maturities of three months or less. The Company places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution.

Accounts Receivable

Allowance for Doubtful Accounts --The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of accounts receivable balances and historical loss rate. The Allowance for Doubtful Accounts was \$10,151 at September 30, 2009. Bad debt expense for the period ending September 30, 2009 and 2008 was \$5,085 and \$0 respectively.

Inventory

Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. The Company periodically reviews inventories and items considered outdated or obsolete are reduced to their estimated net realizable value.

Machinery and Equipment

Machinery and equipment is stated at cost, net of accumulated depreciation and amortization, which is computed using the straight-line method over the estimated useful lives of the related assets of five to ten years. Expenditures

for maintenance and repairs are charged to expense as incurred. Major improvements that extend the lives of assets are capitalized. Any gain or loss on disposition of assets is recognized currently. Accumulated Depreciation was \$65,500 at September 30, 2009.

#### Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company has not recognized any impairment losses through September 30, 2009.

#### Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

#### Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. In accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition", the Company recognizes revenue when the evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 30 days. If the customer is deemed not credit worthy, payment by credit card is required. The Company's agreement with customers includes a right of return. To date returns are not significant. Therefore, an allowance for returns has not been made. Defective units are replaced at the request of the customer.

Amounts billed to customers for shipping and handling, are included as a component of sales. Shipping and handling costs, which represent costs incurred to ship products to customers, are included as a component of selling, general and administrative expenses

#### Deferred Financing Costs

Costs incurred to obtain financing have been capitalized and are being amortized using the straight-line basis over the life of the note, which approximates the effective interest rate.

#### Advertising

Advertising costs are charged to expense as incurred, and are included in general and administrative expenses. Advertising expense for the period ending September 30, 2009 was \$0. Advertising expense was approximately \$5,132 for the period ended December 31, 2008.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in its financial statements and accompanying notes. Actual results could differ from those estimates.

### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, accrued liabilities and loans and notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows.

### Compensated Absences

The Company does not accrue for compensated absences and recognizes the costs of compensated absences when paid to employees. Accordingly, no liability for such absences has been recorded in the accompanying consolidated financial statements. Management believes the effect of this policy is not material to the accompanying financial statements.

### Stock-Based Compensation

In accordance with SFAS No. 123 (Revised 2004), Share Based Payment ("SFAS No. 123R") and the Securities and Exchange Commission's rule amending the compliance dates of SFAS No. 123R, the Company began to recognize compensation expense for equity-based compensation using the fair value method in 2006 using the "Modified Prospective Method". This method allows the Company to apply the fair value provisions of SFAS No. 123R only on the future share-based payment arrangements and unvested portion of prior awards at the adoption date.

The Modified Prospective Method allows the Company to account for the stock-based awards issued prior to the adoption of fair value provisions under SFAS No. 123R using the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation— Transition and Disclosure—An Amendment of FASB Statement No. 123.

Equity instruments issued to non-employees are accounted for at fair value. The fair value of the equity instrument is determined using either the fair value of the underlying stock or the Black-Scholes option-pricing method.

The Company recognizes compensation expense for fixed stock awards with pro rata vesting on a straight-line basis over the requisite service period of the award.

### **NOTE C - INVENTORY**

The components of inventory as of September 30, 2009

	September 30, 2009
Packaging	\$203,818
Finished goods	\$ 36,352
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	\$240,170
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### **NOTE D - NOTES PAYABLE**

On December 8, 2005, the Company issued \$750,000 of Senior Secured Convertible Notes ("the Notes") to three investors and who agreed to issue an additional \$250,000 of Notes (the "Additional Notes") with interest at 8% per annum, payable monthly. The Notes and the Additional Notes were convertible into 3,000,000 shares and 1,000,000 shares of the Company's common stock at \$0.25 per share. On August 14, 2006, the Subscription Agreement was amended to change the Notes conversion price to \$0.18 per share. As a result, the Notes are convertible into 4,166,667 shares of common stock and the Additional Note into 1,388,889 shares of common stock. Additionally, \$100,000 relating to the Additional Notes was received by the Company.

The Notes are collateralized by a security interest in substantially all of the Company's assets. For each share of the Company's Common Stock for which the Notes and the Additional Notes are convertible at the time of closing, the investors will receive one warrant, exercisable for five-years from the date of closing. Payments of 1/16 of the outstanding amount of the Notes will commence on September 8, 2006 and on the eighth day each month thereafter until the Notes have been paid in full, whether by cash or by conversion of the Principal and interest into Common Stock pursuant to the terms of the Notes. The Additional Notes are not contingent to any other conditions, and the right to issue and convert these Additional Notes is in the control of the Company. As required by Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, deferred financing costs of \$542,000 were recorded that are being amortized over the two year term of the notes to their maturity date based on their fair value of \$542,000 using the Black Scholes option pricing model based on the following assumptions: (1) risk free interest rate of 4.21%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 40%; and (4) an expected life of the option of .5 to 5 years. Additionally, the proceeds were allocated between the notes and warrants using the relative fair value method.

#### **NOTE E - RELATED PARTY NOTES PAYABLE**

The notes are generally converted to common stock of the Company. The shareholder notes payable total \$1,618,039 as of September 30, 2009.

#### **NOTE F - STOCK OPTION PLANS**

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons. The Plan reserves 10 million shares of common stock for issuance. The options may be incentive, nonqualified or stock appreciation rights.

Option awards are granted with an exercise price equal to Company's bid price on the on the Pink Sheets on the date of grant, which is fair value. The options vest over three years of continuous service and are exercisable for five years from the date of grant.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plan. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted are:

The Company's computation of the expected volatility for the years ended December 31, 2007 and 2006 is based primarily upon historical volatility and the expected term of the option. The expected term is based on the historical exercise experience under the share-based plans of the underlying award and represents the period of time the share-based awards are expected to be outstanding. The interest rate is based on the U.S. Treasury yield in effect at the time of grant for a period commensurate with the estimated expected life. The forfeiture rate is based on historical data.

#### **NOTE G - WARRANTS**

On April 4, 2005, the Company sold 3,420,000 shares of Common Stock for \$1,026,000 in a private placement and issued 3,911,500 warrants, including 491,500 agent's warrants, ("PPM Warrants") to purchase 3,911,500 shares of the Company's Common Stock.

On December 8, 2005, the Company issued \$750,000 of Senior Secured Convertible Notes and agreed to issue an additional \$250,000 of Notes (see Note E). In connection with this financing, the Company issued warrants ("Investor Warrants") to purchase a total of 4,000,000 shares of the Company's Common Stock.

The warrants did not contain a beneficial exchange feature at the date of the agreement. The exercise price of the investor warrants are subject to adjustment in certain events, including split-ups or combinations of common stock, dividends payable in common stock, and the issuance of rights to purchase additional shares of common stock or to

