

BioElectronics Corporation

(A Development Stage Company)

UNAUDITED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

Unaudited financial statements for BioElectronics Corporation for the three months ended March 31, 2012 have been prepared by management. Accordingly, the financial statements have not been audited, reviewed or compiled by independent accountants. The financial statements have been prepared in accordance with generally accepted accounting principles.

Trading Symbol: BIEL
CUSIP Number: 09062H108

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BioElectronics Corporation (A Development Stage Company)
Condensed Balance Sheets
(Unaudited)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,696	\$ 20,965
Trade and other receivables, net	151,878	\$ 69,314
Inventory	846,852	\$ 854,342
Prepaid expenses and other	3,000	\$ -
Total current assets	1,004,426	944,621
Property and equipment	170,011	\$ 170,011
Less: Accumulated depreciation	(132,562)	\$ (128,393)
Property and equipment, net	37,449	41,618
Total assets	\$ 1,041,875	\$ 986,239
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	563,633	\$ 557,609
Deferred revenue	37,078	\$ 26,550
Related party notes payable, current portion	3,009,678	\$ 2,430,890
Notes payable	-	\$ -
Total current liabilities	3,610,389	3,015,049
Long-term liabilities:		
Related party notes payable, net of discount	3,598,218	\$ 3,971,043
Total liabilities	7,208,607	6,986,092
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 4,000,000,000 and 3,000,000,000 shares authorized at March 31, 2013 and December 31, 2012, respectively, and 2,917,365,968 and 2,666,347,359 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	2,917,366	\$ 2,666,348
Additional paid-in capital	11,270,639	\$ 11,288,377
Deficit accumulated during the development stage	(20,354,737)	\$ (19,954,578)
Total stockholders' deficiency	(6,166,732)	(5,999,853)
Total liabilities and stockholders' deficiency	\$ 1,041,875	\$ 986,239

BioElectronics Corporation (A Development Stage Company)
Condensed Statements of Operations
For the Three Months Ended March 31, 2013 and 2012
and for the Period from April 10, 2000 (Inception) to March 31, 2013
(Unaudited)

	March 31, <u>2013</u>	March 31, <u>2012</u>	Period from April 10, 2000 (Inception) to March 31, 2013 <u></u>
Sales	\$ 112,888	\$ 124,159	\$ 5,696,161
Cost of Goods Sold	<u>69,544</u>	<u>71,736</u>	<u>\$ 2,681,476</u>
Gross profit	<u>43,344</u>	<u>52,423</u>	<u>3,014,685</u>
General and Administrative Expenses:			
Bad Debt Expense	4,767	-	\$ 427,305
Depreciation and Amortization	4,169	4,714	\$ 150,488
Investor Relations Expenses	-	9,486	\$ 2,249,323
Legal and Accounting Expenses	39,762	44,346	\$ 2,025,027
Sales Support Expenses	63,072	113,863	\$ 3,391,621
Research and Development	-	-	\$ 140,200
Other General and Administrative Expenses	<u>330,026</u>	<u>322,416</u>	<u>\$ 11,763,251</u>
Total General and Administrative Expenses	<u>441,796</u>	<u>494,825</u>	<u>20,147,215</u>
Loss from Operations	(398,452)	(442,402)	(17,132,530)
Interest Expense and Other, Net:			
Other Income(Expense)	120,000	(6,250)	\$ 120,000
Interest Expense	(121,707)	(112,424)	\$ (3,423,194)
Loss on Disposal of Assets	<u>-</u>	<u>-</u>	<u>\$ 80,987</u>
Total Interest Expense and Other, Net	<u>(1,707)</u>	<u>(118,674)</u>	<u>(3,222,207)</u>
Loss Before Income Taxes	(400,159)	(561,076)	(20,354,737)
Provision for Income Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (400,159)</u>	<u>\$ (561,076)</u>	<u>\$ (20,354,737)</u>
Net loss Per Share - Basic and Diluted	<u>\$ (0.0001)</u>	<u>\$ (0.0003)</u>	<u>N/A</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>2,791,856,664</u>	<u>2,105,681,871</u>	<u>N/A</u>

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to March 31, 2013

	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	-	-	-	(792,799)	(792,799)
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	239,322	-	240,000
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	648,266	(1,423,960)	(724,778)
Net loss	-	-	-	(2,233,678)	(2,233,678)
Fair value of warrants issued in connection with financing arrangements	-	-	542,460	-	542,460
Issuance of convertible debt with beneficial conversion interest	-	-	422,324	-	422,324
Issuance of common stock for services rendered	2,128,000	2,128	205,043	-	207,171
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	62,864,892	62,864	3,441,870	(3,657,638)	(152,904)
Net loss	-	-	-	(3,185,522)	(3,185,522)
Issuance of convertible debt with beneficial conversion interest	-	-	88,214	-	88,214
Issuance of common stock for services rendered	7,099,856	7,100	433,481	-	440,581
Fair value of warrants issued in connection with financing arrangements	-	-	182,913	-	182,913
Sale of common stock at \$.1667 per share	240,000	240	39,760	-	40,000
Sale of common stock at \$.10 per share	400,000	400	39,600	-	40,000
Issuance of common stock for conversion of debt	5,000,000	5,000	495,000	-	500,000
Stock based compensation expense	-	-	72,703	-	72,703
Balance at December 31, 2006	75,604,748	75,604	4,793,541	(6,843,160)	(1,974,015)
Net loss	-	-	-	(2,105,180)	(2,105,180)
Issuance of convertible debt with beneficial conversion interest	-	-	155,665	-	155,665
Issuance of common stock for services rendered	1,555,000	1,555	51,145	-	52,700
Sale of common stock at \$.035 per share	6,000,000	6,000	204,000	-	210,000
Sale of common stock at \$.04 per share	750,000	750	29,250	-	30,000
Sale of common stock at \$.0444 per share	1,125,000	1,125	48,875	-	50,000
Issuance of common stock for conversion of debt	33,366,847	33,367	1,470,471	-	1,503,838
Balance at December 31, 2007	118,401,595	118,401	6,752,947	(8,948,340)	(2,076,992)
Net loss	-	-	-	(2,127,028)	(2,127,028)
Issuance of convertible debt with beneficial conversion interest	-	-	168,779	-	168,779
Issuance of common stock for services rendered	45,338,500	45,338	355,007	-	400,345
Sale of common stock at \$.035 per share	2,000,000	2,000	68,000	-	70,000
Sale of common stock at \$.0026 per share	8,500,000	8,500	14,000	-	22,500
Sale of common stock at \$.005 per share	5,000,000	5,000	20,000	-	25,000
Sale of common stock at \$.0032 per share	6,250,000	6,250	13,750	-	20,000
Sale of common stock at \$.00351 per share	5,700,000	5,700	14,300	-	20,000
Sale of common stock at \$.0035 per share	11,642,857	11,643	29,107	-	40,750
Issuance of common stock for conversion of debt	63,709,683	63,710	838,051	-	901,761
Balance at December 31, 2008	266,542,635	\$ 266,542	\$ 8,273,941	\$ (11,075,368)	\$ (2,534,885)

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to March 31, 2013
(Continued)

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance at December 31, 2008	266,542,635	266,542	8,273,941	(11,075,368) (634,091)	(2,534,885) (634,091)
Issuance of convertible debt with beneficial conversion interest			6,000	-	6,000
Issuance of common stock for services rendered	149,051,667	149,052	93,845	-	242,897
Sale of common stock at \$.0030 per share	9,000,000	9,000	18,000	-	27,000
Sale of common stock at \$.0020 per share	15,000,000	15,000	15,000	-	30,000
Sale of common stock at \$.0017 per share	11,500,000	11,500	8,500	-	20,000
Sale of common stock at \$.0015 per share	16,666,667	16,667	8,334	-	25,001
Sale of common stock at \$.0444 per share	55,500,000	55,500	11,100	-	66,600
Sale of common stock at \$.0013 per share	16,750,000	16,750	4,850	-	21,600
Sale of common stock at \$.02 per share	7,500,000	7,500	142,500	-	150,000
Sale of common stock at \$.028 per share	5,357,142	5,357	144,643	-	150,000
Sale of common stock at \$.0444 per share	2,250,000	2,250	97,750	-	100,000
Sale of common stock at \$.05 per share	5,646,000	5,646	276,654	-	282,300
Issuance of common stock for conversion of debt	905,788,207	905,788	182,724	-	1,088,512
Issuance of common stock for warrant exercises	4,446,553	4,447	889	-	5,336
Balance at December 31, 2009	1,470,998,871	\$ 1,470,999	\$ 9,284,730	\$ (11,709,459)	\$ (953,730)
Net loss				(2,992,539)	(2,992,539)
Share-based compensation	9,950,000	9,950	326,768	-	336,718
Issuance of common stock for services rendered at \$.002250 per share	3,200,000	3,200	4,000	-	7,200
Issuance of common stock for services rendered at \$.00500 per share	2,500,000	2,500	10,000	-	12,500
Issuance of common stock for services rendered at \$.005250 per share	5,000,000	5,000	21,250	-	26,250
Issuance of common stock for conversion of debt at \$.0012 per share	55,000,000	55,000	11,000	-	66,000
Balance at December 31, 2010	1,546,648,871	\$ 1,546,649	\$ 9,657,748	\$ (14,701,998)	\$ (3,497,601)
Share-based compensation	-	-	222,815	-	222,815
Issuance of common stock for conversion of debt at \$.0012 per share	80,000,000	80,000	16,000	-	96,000
Issuance of common stock for services rendered at \$.0060 per share	1,800,000	1,800	9,000	-	10,800
Issuance of common stock for services rendered at \$.0010 per share	12,150,000	12,150	-	-	12,150
Issuance of common stock for services rendered at \$.0010 per share	83,000	83	-	-	83
Issuance of common stock for services rendered at \$.0049 per share	5,000,000	5,000	19,500	-	24,500
Issuance of common stock for services rendered at \$.00295 per share	20,000,000	20,000	39,000	-	59,000
Issuance of common stock for services rendered at \$.00650 per share	20,000,000	20,000	110,000	-	130,000
Issuance of common stock for cash at \$.00250 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for cash at \$.009091 per share	5,500,000	5,500	44,500	-	50,000
Issuance of common stock for cash at \$.00625 per share	8,000,000	8,000	42,000	-	50,000
Issuance of common stock for cash at \$.00500 per share	10,000,000	10,000	40,000	-	50,000
Issuance of common stock for cash at \$.00400 per share	12,500,000	12,500	37,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002273 per share	22,000,000	22,000	28,000	-	50,000
Issuance of common stock for cash at \$.002000 per share	25,000,000	25,000	25,000	-	50,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Net loss				(2,840,060)	(2,840,060)
Balance at December 31, 2011 (As Restated)	1,950,681,871	\$ 1,950,682	\$ 10,614,063	\$ (17,542,058)	\$ (4,977,313)

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to March 31, 2013
(Continued)

	Capital Stock		Additional	Deficit	Total
	Shares	Amount	Paid-in Capital	Accumulated During the Development Stage	
Balance at December 31, 2011	1,950,681,871	\$ 1,950,682	\$ 10,614,063	\$ (17,542,058)	\$ (4,977,313)
Issuance of common Stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001200 per share	25,000,000	25,000	5,000	-	30,000
Issuance of common stock for cash at \$.001200 per share	25,000,000	25,000	5,000	-	30,000
Issuance of common stock for cash at \$.001000 per share	45,000,000	45,000	-	-	45,000
Issuance of common stock for cash at \$.002000 per share	5,500,000	5,500	5,500	-	11,000
Issuance of common stock for services rendered at \$.001000 per share	10,000,000	10,000	-	-	10,000
Issuance of common stock for cash at \$.001943 per share	8,750,000	8,750	8,255	-	17,005
Issuance of common stock for services rendered at \$.002500 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for services rendered at \$.002500 per share	30,000,000	30,000	45,000	-	75,000
Issuance of common stock for cash at \$.002000 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for cash at \$.002000 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for conversion of debt at \$.001709 per share	91,808,086	91,808	65,096	-	156,904
Issuance of common stock for conversion of debt at \$.001979 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for conversion of debt at \$.001979 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for cash at \$.001500 per share	33,333,334	33,334	16,667	-	50,001
Issuance of common stock for cash at \$.001000 per share	15,000,000	15,000	-	-	15,000
Issuance of common stock for services rendered at \$.002500 per share	1,000,000	1,000	1,500	-	2,500
Issuance of common stock for conversion of debt at \$.002000 per share	71,139,000	71,139	71,139	-	142,278
Issuance of common stock for cash at \$.001360 per share	25,000,000	25,000	9,000	-	34,000
Issuance of common stock for cash at \$.002000 per share	25,000,000	25,000	25,000	-	50,000
Issuance of common stock for cash at \$.002083 per share	12,000,000	12,000	13,000	-	25,000
Issuance of common stock for cash at \$.001786 per share	28,000,000	28,000	22,000	-	50,000
Issuance of common stock for cash at \$.001786 per share	28,000,000	28,000	22,000	-	50,000
Issuance of common stock for cash at \$.001667 per share	30,000,000	30,000	20,000	-	50,000
Compensation expense for nonvested share awards			127,459	-	127,459
Issuance of convertible debt with beneficial conversion interest			33,905	-	33,905
Issuance of common stock for services rendered at \$.00200 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for conversion of debt at \$.00200 per share	5,899,068	5,899	6,011	-	11,910
Net loss				(2,412,520)	(2,412,520)
Balance at December 31, 2012	2,666,347,359	2,666,348	11,288,377	(19,954,578)	(5,999,853)
Issuance of common stock for conversion of debt at \$.0012 per share	49,733,033	49,733	10,133	-	59,866
Issuance of common stock for conversion of debt at \$.0008 per share	59,444,862	59,445	(11,889)	-	47,556
Issuance of common stock for conversion of debt at \$.0021 per share	15,000,000	15,000	16,500	-	31,500
Issuance of common stock for conversion of debt at \$.0007 per share	48,269,286	48,269	(12,840)	-	35,429
Issuance of common stock for conversion of debt at \$.00075 per share	78,571,428	78,571	(19,642)	-	58,929
Net loss				(400,159)	(400,159)
Balance at March 31, 2013	2,917,365,968	2,917,366	11,270,639	(20,354,737)	(6,166,732)

BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows
For the Three Months Ended March 31, 2013 and 2012
and for the Period from April 10, 2000 (Inception) to March 31, 2013
(Unaudited)

	March 31, 2013	March 31, 2012	April 10, 2000 (Inception) to March 31, 2013
Cash Flows From Operating Activities:			
Net Loss	\$ (400,159)	\$ (561,076)	(20,354,737)
Adjustment to Reconcile Net Loss to Net Cash Used in Operating Activities:			
Depreciation and amortization	4,169	4,714	149,988
Provision for bad debts	(4,767)	-	511,658
Amortization of non-cash debt issuance costs	-	-	725,373
Amortization and extinguishment of beneficial conversion discount	-	-	828,050
Non-cash expenses	-	-	1,503,499
Share-based compensation expense	-	52,712	1,102,028
Non-cash interest related to notes payable	-	-	592,418
Non-cash interest related to related party notes payable	121,708	112,424	1,219,156
Amortization of loan costs	-	-	129,852
Increase in related party notes payable for services rendered	-	-	949,840
Loss on disposal of property and equipment	-	-	41,543
Changes in Assets and Liabilities			
(Increase) Decrease in:			
Trade and other receivables	(77,797)	(11,975)	(302,578)
Inventory	(379)	(137,814)	(854,721)
Prepaid expenses and other	4,869	40,158	4,869
Increase (Decrease) in:			
Accounts payable and accrued expenses	57,559	120,065	615,168
Deferred revenue	10,528	131,543	37,078
Net Cash Used In Operating Activities	<u>(284,269)</u>	<u>(249,249)</u>	<u>(13,101,516)</u>
Cash Flows Used In Investing Activities			
Acquisition of property and equipment	-	-	(211,564)
Cash Flows From Financing Activities			
Proceeds from note payable	-	1,964	1,090,148
Payments on note payable	-	-	(627,142)
Proceeds from related party notes payable	265,999	40,000	8,736,303
Proceeds from financing of receivables with related party	-	-	116,978
Payments for financing of receivables with related party	-	-	(974,803)
Proceeds from issuance of common stock	-	195,000	4,984,278
Other	-	-	(9,987)
Net Cash Provided By Financing Activities	<u>265,999</u>	<u>236,964</u>	<u>13,315,775</u>
Net Increase (Decrease) In Cash	(18,270)	(12,285)	2,695
Cash- Beginning of Period	20,965	55,492	-
Cash- End of Period	<u>\$ 2,695</u>	<u>\$ 43,207</u>	<u>\$ 2,695</u>
Supplemental Disclosures Of Cash Flow Information:			
Cash paid during the periods for:			
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>66,632</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Conversion of debt and accrued interest into common stock	<u>\$ 233,280</u>	<u>\$ -</u>	<u>4,628,934</u>
Issuance of convertible debt with beneficial conversion interest	<u>\$ -</u>	<u>\$ -</u>	<u>874,887</u>
Conversion of warrants into common stock	<u>\$ -</u>	<u>\$ -</u>	<u>5,336</u>
Equipment purchases financed through capital leases and notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>9,986</u>

BioElectronics Corporation (A Development Stage Company)
Notes to Condensed Financial Statements
See Accountants' Compilation Report
(Unaudited)

NOTE 1- NATURE OF BUSINESS

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003. The Company is the developer, marketer and manufacturer of patented, inexpensive, drug-free, topical pain medical devices. The devices use proven therapies of heat and electric restoration of the body's injured cells. Physicians, sports trainers, and therapist around the world have used pulsed shortwave therapy successfully for more than eighty years to reduce pain and inflammation *and* accelerate healing. The Company has reduced the clinic apparatus to wafer thin disposable devices that are applied directly to the body. The extended duration dual therapy of heat and electric restoration is significantly safer and more effective than competitive heat or cold pads and pain medications. The devices consist of an inexpensive microchip, battery and antenna that deliver the therapy more effectively. BioElectronics markets and sells its current products under the brand names ActiPatch®, Allay™ and RecoveryRx™.

- 5x better pain relief than OTC drugs, 100% safer and restores functionality.
- Available for
 - Back Pain Therapy packaged with a wrap
 - Multi-Use Therapy packaged with 60 adhesives
 - Knee Pain Therapy packaged with a wrap
 - Wrist and Elbow Pain Therapy packaged with a wrap
 - Comfortable and discreet 24-hour Menstrual pain and discomfort relief
 - Post-operative and chronic wound care
 - Post-operative and chronic wound care
- Providing 720 hours of musculoskeletal therapy or ninety (90) overnight treatments for \$19.95 retail, or \$0.25 each.
- Providing 5 days of profound menstrual pain and discomfort relief for \$9.95
- Clinically proven, with 6 published clinical studies, and ongoing studies at Tufts Dental School, University of Chicago Medical School, University of British Columbia, Aarhus University Hospital, Denmark, and University Hospital, Ghent Belgium.

The Company was granted its first approval from the FDA under a 510(k) in August 2002. Prior to FDA approval and the establishment of its research and development group, PAW, LLC (an entity owned by the family of Andy Whelan, President) funded the operations and costs of product development.

The accompanying financial statements are those of a development stage company. The Company is currently engaged in and devotes considerable time to planning, product design changes, recruiting distributors and establishing a market presence for its product.

The Company has focused attention on international customers to expand its distributions and sales. The Company has established distribution agreements with distributors in Korea, Singapore, Malaysia, Canada, Columbia, Scandinavia, Saudi Arabia, the Balkans, Australia, China and South America. The distribution agreements grant the right to sell BioElectronics' products in certain territories. The distributors are responsible for advertising and promotion in their assigned territories. In addition, the distributors are subject to minimum annual product purchases, minimum initial purchases and minimum inventory requirements.

NOTE 2 – 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 (U.S. GAAP).

Development Stage Company

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 915, “Development Stage Entities”, the Company is devoting substantially all of its present efforts to developing its business. The Company has not yet commenced one of its planned principal activities, the sale of products in the U.S. retail market. All losses accumulated since inception have been considered as part of the Company’s development stage activities. Costs of start-up activities, including organizational costs, are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The more significant estimates include inventory obsolescence reserve, useful lives for depreciation and amortization, salvage values of depreciable equipment, valuation of warrants, nonvested restricted shares, stock options, allowance for doubtful accounts receivable. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less as cash equivalents.

Trade Receivables

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 trade and other receivable balances and historical loss rate. The allowance for doubtful accounts was \$107,776 and \$103,009 at March 31, 2013 and December 31, 2012, respectively. Bad debt expense for the three months ended March 31, 2013 and 2012 was \$4,767 and \$0, respectively.

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. Revenue is recognized when 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 60 days. If the customer is deemed not credit worthy, payment in advance is required. Payments received in advance of when revenue is recognized are recorded as deferred revenue on the balance sheets and recognized as revenue when the goods are shipped and all other general revenue recognition criteria have been met. No allowance for sales returns is required for the three months ended March 31, 2013 and 2012. Defective units are replaced at the request of the customer.

Advertising Costs

The Company expenses the costs associated with advertising as incurred, except if costs are for the production of advertisements that have not yet been broadcast, including infomercials. These advertising costs are recorded as prepaid expenses and amortized over a one-year period beginning when the advertisements are aired. Advertising

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenses for the three months ended March 31, 2013 and 2012 were \$473 and \$58,087, respectively, and included in the other general and administrative expenses. There was no value recorded to prepaid advertising as of March 31, 2013 and December 31, 2012, and there was no total amount amortization expense for prepaid advertising for the three months ended March 31, 2013 and 2012, respectively.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided to offset any deferred tax assets that may not be realized.

Stock Incentive Plans and Other Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, "Earnings per Share", which requires the presentation of basic and diluted net loss per share on the face of the Statement of Operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the years ended December 31, 2012 and 2011 the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the years presented as the shares are anti-dilutive.

Issuance Of Stock For Non-Cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a per share amount determined with reference to the value of consideration received, which has been determined to be a more readily determinable fair value than the fair value of the common stock. The majority of the non-cash consideration pertains to services rendered by consultants and vendors. The fair value of the services received was used to record the related expense in the statement of operations and fair value was attributed to the shares issued.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC Topic 505-50, "Equity-Based Payments to Non-Employees." The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete.

Stockholders' Equity Transactions

On June 18, 2009, the Company authorized to increase the number of common shares from 750,000,000 to 1,000,000,000, with further increases to 1,500,000,000 (November 2010), 2,000,000,000 in 2011, 3,000,000,000 in 2012, and finally to 4,000,000,000 in 2013. These increases are a result of the continued requirement to cover the potential issuance of common stock resulting from the conversion of debt to equity, and the vesting of nonvested share awards. The shareholders of the remaining shares to be issued upon conversion or exercise of equity instruments are likely to promptly sell those shares into the public market. The resale of these shares could have a negative impact on the stock price, and these conversions would have a dilutive impact on our

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

shareholders. As a result, our net income per share could decrease for future periods, and the market price of our common stock could decline.

NOTE 3 – GOING CONCERN

The Company's financial statements have been prepared on a going concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations. The Company sustained a net loss of \$400,159 for the three months ended March 31, 2013, and a total net loss from inception of \$20,354,737. The Company is currently seeking financing to provide the needed funds for operations. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations and alleviate doubt about its ability to continue as a going concern.

NOTE 4 - INVENTORY

The components of inventory consisted of the following as of:

	March 31, 2013	December 31, 2012
Raw materials	\$ 514,350	\$ 574,469
Prepaid inventory	18,823	20,117
Finished goods	313,679	259,756
	<u>\$ 846,852</u>	<u>\$ 854,342</u>

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following as of:

	March 31, 2013	December 31, 2012
Machinery & Equipment	\$ 163,129	\$ 163,129
Leasehold improvements	6,882	6,882
	170,011	170,011
Less: accumulated depreciation	132,562	128,393
Total property and equipment, net	<u>\$ 37,449</u>	<u>\$ 41,618</u>

For the three months ended March 31, 2013 and 2012, depreciation expense on property and equipment amounted to \$4,169 and \$4,714, respectively.

NOTE 6 – RELATED PARTY NOTES PAYABLE

IBEX Revolver Agreement

IBEX, LLC is a limited liability company, whose President is the daughter of the President of the Company. On January 1, 2005, the Company entered into an unsecured revolving convertible promissory note agreement (“the Revolver”) with IBEX, LLC (“IBEX”) a related party, for a maximum limit of \$2,000,000, with interest at the Prime Rate plus 2%, and all accrued interest and principal due on or before January 1, 2015, whether by the payment of cash or by conversion into shares of the Company's common stock.

NOTE 6 – RELATED PARTY NOTES PAYABLE (continued)

The IBEX revolving convertible promissory note states the initial conversion price is \$0.05 per share subject to adjustments for a) stock dividends or other distributions and subdividing or combining its common stock or common stock equivalents, b) sales or issuances of common stock or common stock equivalents at less than market value, defined as the average of the daily closing price for the 10 trading days before the market value date. The closing price is the last sale price, regular way, or the average of last bid and ask price, regular way, if there are no reported sales during that period on exchanges where shares are admitted to trading or listed, and if not available, the fair market price as reasonably determined by the Board of Directors, or c) if the Company issues shares of common stock to the holder which are not freely transferable at the time of issuance, in lieu of payment of indebtedness, the conversion price shall be discounted to reflect such restriction.

Any discount will be negotiated on a case by case basis between the holder and the Company to reflect current market conditions and both parties must expressly accept the discounted conversion price.

The conversion price on the related party convertible notes payable discussed below and the individual advances under the IBEX revolving convertible promissory note has generally been 50% or less of the pink sheet closing price of the common stock on the date the notes or advances are issued to reflect the restricted nature of the stock into which the notes could be converted and the Board of Directors' belief that the closing stock price is not reflective of the fair market value of the common stock due to the price volatility, lack of an active market for trading shares resulting in limited trading volume of share transactions. The Board of Directors is active in negotiating conversion prices for each issuance and takes into consideration all information in establishing the issuance date fair market value.

During the three months ended March 31, 2013, IBEX converted \$58,929 of the Revolver's outstanding balance and received 78,571,428 shares of the Company's common stock at a conversion price of \$0.00075 per share. There were no debt conversions for the three months ended March 31, 2012.

The balance of the Revolver as of March 31, 2013 and December 31, 2012 was \$1,535,981 and \$1,325,947, respectively. During the three months ended March 31, 2013, the Company received an additional \$251,000 in proceeds through the Revolver to fund operating expenses. If converted, the Revolver debt at March 31, 2013, at the conversion price of \$.0012 per share represents 1,279,983,562 shares of common stock.

IBEX Promissory Convertible Notes Payable

In addition to the Revolver as described above, beginning on August 1, 2009, the Company started entering into convertible promissory note agreements with IBEX with simple interest at 8% per annum. All accrued interest and principal on the various notes payable are due on or before the end of the month two years from the date of issuance (e.g. August 31, 2011), whether by the payment of cash or by conversion into shares of the Company's common stock, unless otherwise extended with new terms. According to the original Security Agreement dated August 1, 2009, the Company grants IBEX a security interest in, all of the right, title, and interest of the Company, in and to all of the Company's personal property and intellectual property, and all proceeds or replacements as collateral for the convertible promissory note agreements.

On August 31, 2011, the date of maturity for notes payable of \$519,920, the Company did not have sufficient cash on hand to pay the amount due, so the Company and issuer entered into an agreement to change the conversion price of the note to the market price of the restricted shares. The Conversion Price was thus changed from the original amount of \$.019 per share to \$.015 per share, the share market price on that date. The maturity date on the note agreement was extended to August 31, 2013.

Starting in 2012 and continuing through March 2013, the Company extended the maturity dates by one year on 23 separate notes, totaling \$1,944,333, through multiple agreements with IBEX, as a result of insufficient cash to make payments on amounts owed. In exchange for the extensions, the conversion prices were changed to the existing market price of the Common Stock on the date of the maturity. Due to the drop in stock prices since the original note issuances, the corresponding shares to be issued on the conversion of these IBEX notes has increased from 787,650,788 at December 31, 2011 to 1,963,472,698 shares of Common Stock as of March 31, 2013.

NOTE 6 – RELATED PARTY NOTES PAYABLE (continued)

During the three months ended March 31, 2013 and 2012, total interest expense, including amortization of the discount, incurred on the IBEX Revolver and IBEX convertible promissory notes payable for the three months ended March 31, 2013 and 2012 was \$84,770 and \$77,484, respectively.

Issuance Date	Maturity Date	Interest Rate	Amounts Available for Conversion			Conversion Price/Share	Shares to be Issued
			Principal	Interest	Total		
8/1/2009	8/31/2013	8.00%	\$ 519,920	\$ 170,522	\$ 690,442	\$ 0.0015	460,294,667
2/9/2010	2/28/2014	8.00%	135,000	34,715	169,715	0.0100	16,971,500
3/31/2010	3/31/2014	8.00%	310,000	79,715	389,715	0.0100	38,971,500
4/15/2010	4/30/2014	8.00%	20,000	5,143	25,143	0.0020	12,571,500
5/5/2010	5/31/2014	8.00%	120,000	30,857	150,857	0.0020	75,428,500
5/14/2010	5/31/2014	8.00%	100,000	25,714	125,714	0.0020	62,857,000
6/27/2012	6/30/2014	8.00%	130,000	33,429	163,429	0.0020	81,714,500
6/27/2012	9/30/2013	8.00%	100,000	23,321	123,321	0.0012	102,767,500
6/27/2012	9/30/2013	8.00%	185,000	40,584	225,584	0.0012	187,986,667
6/27/2012	10/31/2013	8.00%	50,000	10,760	60,760	0.0020	30,380,000
6/27/2012	10/31/2013	8.00%	50,000	9,720	59,720	0.0020	29,860,000
6/27/2012	11/30/2013	8.00%	50,000	10,655	60,655	0.0020	30,327,500
11/15/2010	12/31/2013	8.00%	100,000	20,318	120,318	0.0012	100,265,000
12/7/2010	12/31/2013	8.00%	46,833	15,487	62,320	0.0012	51,933,333
12/30/2010	1/31/2014	8.00%	40,000	7,657	47,657	0.0012	39,714,167
1/26/2011	1/31/2014	8.00%	50,000	9,328	59,328	0.0012	49,440,000
1/31/2011	2/28/2014	8.00%	40,000	7,411	47,411	0.0012	39,509,167
2/2/2011	2/28/2014	8.00%	125,000	23,096	148,096	0.0012	123,413,333
2/14/2011	3/31/2014	8.00%	62,000	11,265	73,265	0.0012	61,054,167
3/7/2011	3/31/2014	8.00%	42,000	7,405	49,405	0.0012	41,170,833
3/23/2011	3/31/2014	8.00%	37,000	6,371	43,371	0.0012	36,142,500
4/11/2011	4/31/2013	8.00%	50,000	8,356	58,356	0.0045	12,968,000
4/14/2011	4/31/2013	8.00%	30,000	4,991	34,991	0.0045	7,775,778
6/30/2011	6/30/2013	8.00%	35,000	5,146	40,146	0.0029	13,843,448
6/30/2011	6/30/2013	8.00%	10,000	1,470	11,470	0.0029	3,955,172
7/19/2011	7/31/2013	8.00%	6,000	853	6,853	0.0028	2,447,500
7/28/2011	7/31/2013	8.00%	60,000	8,392	68,392	0.0028	24,425,714
8/15/2011	8/31/2013	8.00%	18,000	2,518	20,518	0.0070	2,931,143
8/17/2011	8/31/2013	8.00%	5,000	699	5,699	0.0069	825,942
6/15/2012	6/15/2014	8.00%	68,500	4,483	72,983	0.0012	60,819,167
9/30/2012	9/30/2014	8.00%	133,500	8,240	141,740	0.0012	118,116,667
12/14/2012	12/31/2014	8.00%	35,000	839	35,839	0.0012	29,865,833
3/31/2013	3/31/2015	8.00%	15,000	270	15,270	0.0012	12,725,000
			<u>2,778,753</u>	<u>629,730</u>	<u>3,408,483</u>		<u>1,963,472,698</u>

Other Related Party Notes Payable

The Company has entered into convertible promissory note agreements with various other related parties of the Company. Other related parties consist of family members of the President of the Company. Additionally, St. Johns, LLC is a limited liability company, which is owned by a family member of the President of the Company. Richard Staelin is a member of the Board of Directors and Chairman of the Board.

Each of the promissory notes bears simple interest at 8% per annum, and all accrued interest and principal is due on the maturity date. At the option of the holder, the promissory notes are convertible into common shares of the

NOTE 6 – RELATED PARTY NOTES PAYABLE (continued)

Company's stock at a conversion rate equal to the quotient of (i) a sum equal to the entire outstanding principal and interest, divided by (ii) the conversion price indicated in the following table.

The following table is a schedule of the individual promissory notes issuance date, maturity date, principal balance, accrued interest, and number of shares which the debt can be converted to as of March 31, 2013:

Issuance Date	Maturity Date	Principal Balance	Amounts Convertible			Conversion Price/Share	Shares to be Issued	Lender
			Principal	Interest	Total			
12/31/2010	12/31/2013	52,095	52,095	9,881	61,976	0.0012	51,646,667	Jarenz
4/30/2012	4/30/2014	5,000	5,000	272	5,376	0.0016	3,360,000	Mary Whelan
5/31/2012	5/31/2014	25,000	25,000	7,079	26,703	0.0016	16,689,375	Mary Whelan
6/27/2012	11/30/2013	25,000	25,000	5,268	30,268	0.0012	25,223,333	Richard Staelin
12/9/2010	12/31/2013	78,333	78,333	15,891	94,224	0.0012	78,520,000	Richard Staelin
11/29/2010	11/30/2013	100,000	64,712	18,483	83,195	0.0012	69,329,167	St. Johns LLC
12/7/2010	12/31/2013	87,760	87,760	17,853	105,613	0.0012	88,010,833	St. Johns LLC
12/31/2010	12/31/2013	25,274	25,274	4,988	30,262	0.0012	25,218,333	St. Johns LLC
1/5/2011	1/31/2014	100,000	100,000	19,605	119,605	0.0012	99,670,833	St. Johns LLC
1/11/2011	1/31/2014	121,000	121,000	23,536	144,536	0.0012	120,446,667	St. Johns LLC
3/31/2011	3/31/2014	33,000	33,000	5,740	38,740	0.0012	32,283,333	St. Johns LLC
3/31/2011	3/31/2014	52,122	52,122	9,065	61,187	0.0012	50,989,167	St. Johns LLC
4/20/2011	4/30/2013	100,000	100,000	16,888	116,888	0.0028	41,745,714	St. Johns LLC
6/2/2011	6/30/2013	25,000	25,000	3,951	28,951	0.0027	10,722,593	St. Johns LLC
6/9/2011	6/30/2013	30,000	30,000	4,711	34,711	0.0039	8,900,256	St. Johns LLC
6/15/2011	6/30/2013	10,000	10,000	1,548	11,548	0.0034	3,396,471	St. Johns LLC
7/14/2011	7/31/2013	75,000	75,000	11,143	86,143	0.0029	29,704,483	St. Johns LLC
1/12/2012	1/31/2014	40,000	40,000	4,085	44,085	0.0014	31,489,286	St. Johns LLC
6/30/2012	6/30/2014	133,453	133,453	8,392	141,845	0.0020	70,922,500	St. Johns LLC
6/30/2012	6/30/2014	50,961	50,961	3,203	54,164	0.0020	27,082,000	St. Johns LLC
7/3/2012	7/31/2014	20,000	20,000	1,225	21,225	0.0020	10,612,500	St. Johns LLC
7/6/2012	7/31/2014	4,000	4,000	242	4,242	0.0020	2,121,000	St. Johns LLC
7/11/2012	7/31/2014	50,000	50,000	2,972	52,972	0.0020	26,486,000	St. Johns LLC
7/20/2012	7/31/2014	12,000	12,000	689	12,689	0.0020	6,344,500	St. Johns LLC
7/31/2012	7/31/2014	5,000	5,000	274	5,274	0.0020	2,637,000	St. Johns LLC
8/14/2012	8/31/2014	10,000	10,000	517	10,517	0.0020	5,258,500	St. Johns LLC
9/30/2012	9/30/2014	59,607	59,607	2,428	62,035	0.0012	51,695,833	St. Johns LLC
12/31/2012	12/31/2014	153,490	153,490	3,061	156,551	0.0012	130,459,167	St. Johns LLC
3/31/2013	3/31/2015	51,535	51,535	-	51,535	0.0012	42,945,833	St. Johns LLC
		<u>\$ 1,534,630</u>	<u>\$ 1,499,342</u>	<u>\$ 202,990</u>	<u>\$ 1,697,060</u>		<u>990,506,344</u>	

Future minimum principal payments for the notes payable, IBEX Revolver, IBEX Notes and other related party loans are as follows, as of March 31, 2013:

2013	\$ 2,333,324
2014	2,705,414
2015	<u>1,569,158</u>
	<u>\$ 6,607,896</u>

NOTE 7 – LOSS PER SHARE

The following table sets forth the computation of basic and diluted share data:

	Three Months Ended March 31	
	2013	2012
Common Stock:		
Weighted Average Number of Shares Outstanding - Basic	2,791,856,664	2,105,681,871
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	2,791,856,664	2,105,681,871
Options and Warrants Not Included Above (Antidilutive)		
Nonvested Restricted Share Awards	15,153,724	-
Options to Purchase Common Stock	26,399,293	-
	<u>41,553,017</u>	<u>-</u>

NOTE 8 – SHARE BASED COMPENSATION

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 initially reserved 10 million shares of common stock for issuance, which was amended to 100 million shares on March 1, 2010. In 2012 the plan was amended to 200 million shares available for future grant under the Plan. The issuance can be in the forms of options or shares. The options may be incentive, nonqualified or stock appreciation rights. The shares may be issued for performance.

Stock Option Awards

On September 1, 2011, the Company granted stock options to a third party vendor with a grant date fair value of \$0.005 per share. The exercise price is \$0.005 per share with a term of ten years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

On August 29, 2012, the Company granted stock options to employees of the Company, the Chairman of the Board and a shareholder of the Company with a grant date fair value of \$0.0029 per share. The exercise price is \$0.0022 per share with a term of five years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

Below is a summary table of the options granted and the weighted-average grant date fair value during the three months ended March 31, 2013:

<u>Stock options</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2012	71,000,000 \$	0.0034
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at March 31, 2013	<u>71,000,000 \$</u>	<u>0.0034</u>

NOTE 8 – SHARE BASED COMPENSATION (continued)

Compensation expense related to the stock options during the three months ended March 31, 2013 and 2012 was \$0 and \$19,589, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to employees that the Company will have to recognize over a 4.92 year weighted-average period is approximately \$238,870.

Nonvested Restricted Share Awards

In prior years, the Company also issued nonvested restricted share awards to directors, consultants and employees. The nonvested restricted share awards vest over a three year period based on the requisite service period. Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest. The fair value of grants is measured by the market price of the Company's common stock on the date of grant discounted by 50 percent based on the restricted nature of the stock, the volatility in the market and other variables taken into account by the Board of Directors in determining the fair value of the restricted share awards.

Restricted stock awards generally vest ratably over the service period beginning with the first anniversary of the grant date. After shares are vested, they will be issued upon the request of the grantee.

A summary of the status of the Company's nonvested shares granted to employees as of March 31, 2013, and changes during the three months ended March 31, 2013, is as follows:

Nonvested shares	Shares	Weighted- average grant date fair value
Balance at December 31, 2012	6,000,000	\$ 0.0104
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at March 31, 2013	<u>6,000,000</u>	<u>\$ 0.0104</u>

Total compensation cost related to the restricted stock awards granted to employees was \$0 and \$22,928 for the three months ended March 31, 2013 and 2012, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to employees that the Company will have to recognize over a 1.1 year weighted-average period is approximately \$39,000.

A summary of the status of the Company's nonvested shares granted to non-employees as of March 31, 2013, and changes during the three months ended March 31, 2013, is as follows:

Nonvested shares	Shares	Weighted- average grant date fair value
Balance at December 31, 2012	4,233,333	\$ 0.0181
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at March 31, 2013	<u>4,233,333</u>	<u>\$ 0.0181</u>

NOTE 8 – SHARE BASED COMPENSATION (continued)

Total compensation cost related to the restricted stock awards granted to non-employees was \$0 and \$19,157 for the three months ended March 31, 2013 and 2012, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to Non-employees that the Company will have to recognize over a .5 year weighted-average period is approximately \$32,000.

NOTE 9 – INCOME TAXES

The Company has not provided for income tax expense for the three months ended March 31, 2013 because of a significant net operating loss carry-forward of approximately \$16.3 million. The net operating losses expire in various years through 2031.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible.

Based on available evidence, Company's management believes that it is more likely than not that the Company will not be able to realize the benefit of its net deferred tax assets as of March 31, 2013 and 2012, and that a full valuation reserve is needed to reduce the net deferred tax asset value to \$0 for each year.

NOTE 10 – FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash, trade and other receivables, accounts payable and accrued expenses and related party 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. The Company adopted ASC Topic 820-10, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly including inputs in markets that are not considered to be active
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office equipment under a non-cancelable operating lease expiring in 2014. In the normal course of business, operating leases are generally renewed or replaced by other leases.

The approximate future minimum lease payments as of March 31, 2013: 2013 - \$2,100, and 2014 - \$900, respectively.

The amount of rental expenses were \$23,463 and \$22,106 for the three months ended March 31, 2013 and 2012, respectively.

Litigation

General

In the ordinary course of conducting its business, the Company may become involved in various legal actions and other claims, some of which are currently pending. Litigation is subject to many uncertainties and management may be unable to accurately predict the outcome of individual litigated matters. Some of these matters may possibly be decided unfavorably towards the Company.

The Company is involved, on a continuing basis, in monitoring our compliance with environmental laws and in making capital and operating improvements necessary to comply with existing and anticipated environmental requirements. While it is impossible to predict with certainty, management currently does not foresee such expenses in the future as having a material effect on the business, results of operations, or financial condition of the Company.

NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 6, BioElectronics signed a distribution agreement on February 9, 2009 with eMarkets Group, LLC (eMarkets) a company owned and controlled by a member of the Board of Directors and sister of the company's President. The agreement provides for eMarkets to be the exclusive distributor of the veterinary products of the Company to customers in certain countries outside of the United States for a period of three years. The distribution agreement lists the prices to be paid for the company's products by eMarkets and provides for the company to provide training and customer support at its own cost to support the distributor's sales function.

Revenue from eMarkets for the three months ended March 31, 2013 and 2012 amounted to \$557 and \$543, respectively. The balance due from eMarkets as of March 31, 2013 and December 31, 2012 was \$1,399 and 842, respectively.

NOTE 13 – CONCENTRATIONS

As of March 31, 2013, approximately 94 percent of trade receivables was from 3 customers. For the three months ended March 31, 2013 approximately 67 percent of sales revenue was from 5 customers, At March 31, 2013, approximately 70 percent of accounts payable was to five vendors.