BioElectronics Corporation

(A Development Stage Company)

UNAUDITED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012

Unaudited financial statements for BioElectronics Corporation for the three-month and nine-month periods ended September 30, 2012 have been prepared by management, accordingly the financial statements have not been audited, reviewed or compiled by independent accountants. The financial statements are prepared to conform to interim financial statement presentation and accordingly omit or condense certain disclosures required by generally accepted accounting principles to be considered a complete set of financial statements.

Trading Symbol: BIEL
CUSIP Number: 09062H108

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

	September 30, 2012	(Restated) December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 5,664	$ 55,492
Trade and other receivables, net	59,343	185,823
Due from related party	30,020	-
Inventory	733,361	775,184
Prepaid expenses and other	52,344	50,000
Total current assets	880,732	1,066,499
Property and equipment	170,011	170,011
Less: Accumulated depreciation	(124,223)	(112,058)
Property and equipment, net	45,788	57,953
Total assets	$ 926,520	$ 1,124,452
Liabilities and stockholders' deficiency		
Current liabilities:		
Cash overdraft	$ 22,210	$ -
Accounts payable and accrued expenses	303,465	314,990
Related party notes payable, current portion	3,167,943	2,120,427
Notes payable	-	100,537
Total current liabilities	3,493,618	2,535,954
Long-term liabilities:		
Related party notes payable, net of discount	2,915,774	3,565,811
Total liabilities	6,409,392	6,101,765
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value $0.001 per share, 3,000,000,000 and 2,500,000,000 shares authorized at September 30, 2012 and December 31, 2011, respectively, and 2,655,448,291 and 1,950,681,871 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	2,655,448	1,950,682
Additional paid-in capital	11,277,365	10,614,063
Deficit accumulated during the development stage	(19,415,685)	(17,542,058)
Total stockholders' deficiency	(5,482,872)	(4,977,313)
Total liabilities and stockholders' deficiency	$ 926,520	$ 1,124,452

BioElectronics Corporation (A Development Stage Company)
Statements of Operations
For Three and Nine Months Ended September 30, 2012 and 2011
and for the Period from April 10, 2000 (Inception) to September 30, 2012
(Unaudited)

	For the three months ended		For the nine months ended		Period from April 10, 2000 (Inception) to
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Sales	$ 23,440	$ 42,810	$ 309,669	$ 737,339	$ 5,401,426
Cost of Goods Sold	22,819	38,613	205,372	372,869	2,544,577
Gross profit	621	4,197	104,297	364,470	2,856,849
General and Administrative Expenses:					
Bad Debt Expense	98,734	-	98,815	-	418,425
Depreciation and Amortization	2,737	4,714	12,165	14,142	142,150
Investor Relations Expenses	13,000	130,000	165,339	273,893	2,075,393
Legal and Accounting Expenses	11,568	33,403	172,060	260,104	1,922,010
Sales Support Expenses	141,041	102,745	754,066	365,010	3,426,531
Research and Development	122,200	-	134,200	-	134,200
Other General and Administrative Expenses	123,832	392,797	292,081	1,347,044	11,042,225
Total General and Administrative Expenses	513,112	663,659	1,628,726	2,260,193	19,160,934
Loss from Operations	(512,491)	(659,462)	(1,524,429)	(1,895,723)	(16,304,085)
Interest Expense and Other, Net:					
Other Income	1,130	-	1,249	-	117,405
Interest Expense	(119,678)	(113,954)	(341,896)	(299,649)	(3,185,165)
Other Expenses	(2,297)	-	(8,551)	-	(43,840)
Total Interest Expense and Other, Net	(120,845)	(113,954)	(349,198)	(299,649)	(3,111,600)
Loss Before Income Taxes	(633,336)	(773,416)	(1,873,627)	(2,195,372)	(19,415,685)
Provision for Income Tax Expense	-	-	-	-	-
Net loss	$ (633,336)	$ (773,416)	$ (1,873,627)	$ (2,195,372)	$ (19,415,685)
Net loss Per Share - Basic and Diluted	$ (0.0002)	$ (0.0005)	$ (0.0007)	$ (0.0014)	N/A
Weighted Average Number of Shares Outstanding - Basic and Diluted	2,596,114,958	1,703,270,871	2,292,062,613	1,656,167,315	N/A

See Accompanying Condensed Notes

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency
For the Period from April 10, 2000 (Inception) to September 30, 2012
(Unaudited)

	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)
Net loss				(634,091)	(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 $.0012 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)

See Accompanying Condensed Notes

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency
For the Period from April 10, 2000 (Inception) to September 30, 2012
(Unaudited)
(Continued)

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
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)
Compensation expense for nonvested share awards					-
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 $.0015 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 $.0080 per share	12,150,000	12,150	-	-	12,150
Issuance of common stock for services rendered at $.0069 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 $.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	1,950,681,871	$ 1,950,682	$ 10,614,063	$ (17,542,058)	$ (4,977,313)
Issuance of common Stock for cash at $.001450 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 $.001300 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at $.001350 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 $.001100 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 $.002000 per share	8,750,000	8,750	8,255	-	17,005
Issuance of common stock for services rendered at $.0025 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for services rendered at $.0025 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 $.0017 per share	91,808,086	91,808	65,095	-	156,903
Issuance of common stock for conversion of debt at $.0020 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for conversion of debt at $.0020 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for cash at $.002000 per share	33,333,334	33,333	16,667	-	50,000
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 $.0025 per share	1,000,000	1,000	1,500	-	2,500
Issuance of common stock for conversion of debt at $.0020 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 $.002080 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 $.001786 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
Net loss				(1,873,627)	(1,873,627)
Balance at September 30, 2012	2,655,448,291	2,655,448	11,277,365	(19,415,685)	(5,482,872)

See Accompanying Condensed Notes

BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and Year Ended December 31, 2011
and for the Period from April 10, 2000 (Inception) to September 30, 2012
(Unaudited)

	2012	2011	April 10, 2000 (Inception) to September 30, 2012
Cash flows from Operating Activities:			
Net loss	$ (1,873,627)	$ (2,852,660)	$ (19,415,685)
Adjustment to Reconcile Net Loss to			
Net Cash Used In Operating Activities:			
Depreciation and amortization	12,165	17,186	141,650
Provision for bad debts	98,815	98,000	516,425
Amortization of non-cash debt issuance costs	-	-	725,373
Amortization and extinguishment of beneficial conversion discount	19,401	25,317	802,733
Non-cash expenses	-	-	1,503,499
Share-based compensation expense	239,959	471,948	1,092,028
Non-cash interest related to notes payable	-	-	592,418
Non-cash interest related to related party notes payable	322,159	385,087	981,127
Amortization of loan costs	-	-	129,852
Increase in related party notes payable for services rendered	244,022	52,122	949,840
Loss on disposal of property and equipment	-	-	41,543
Changes in Assets and Liabilities			
(Increase) Decrease in:			
Trade and other receivables	27,665	(98,853)	(210,697)
Inventory	41,823	197,162	(733,361)
Due from related party	(30,020)	-	(30,020)
Prepaid expenses and other	(2,344)	71,955	(52,344)
Increase (Decrease) in:			
Accounts payable and accrued expenses	(59,948)	28,449	303,465
Cash Overdraft	22,210	-	22,210
Deferred revenue	-	(213,315)	-
Net cash used in operating activities	(937,720)	(1,817,602)	(12,639,944)
Cash flows from Investing Activities			
Acquisition of property and equipment	-	-	(211,564)
Net cash Used in Investing Activities	-	-	(211,564)
Cash flows from Financing Activities			
Proceeds from note payable, net of loan costs of $10,000	-	-	1,090,148
Payments on note payable	(52,114)	(22,295)	(627,142)
Proceeds from related party notes payable	373,000	1,064,000	8,352,193
Proceeds from financing of receivables with related party	-	-	116,978
Payments on related party notes payable	-	-	-
Proceeds from shareholder loans	-	-	-
Payments for financing of receivables with related party	-	-	(974,803)
Proceeds from issuance of common stock	567,006	805,000	4,984,277
Other	-	-	(9,987)
Net cash provided by financing activities	887,892	1,846,705	12,931,664
Net increase (Decrease) in cash	(49,828)	29,103	80,156
Cash- Beginning of Period	55,492	26,389	-
Cash- End of Period	$ 5,664	$ 55,492	$ 80,156
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the periods for:			
Interest	$ -	$ -	$ 66,632
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Conversion of debt and accrued interest into common stock	$ 527,198	$ 96,000	$ 4,383,743
Issuance of convertible debt with beneficial conversion interest	$ 33,905	$ -	$ 874,887
Conversion of warrants into common stock	$ -	$ -	$ 5,336
Equipment purchases financed through capital leases and notes payable	$ -	$ -	$ 9,986

See Accompanying Condensed Notes

NOTE 1- NATURE OF BUSINESS

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003. BioElectronics Corporation (the "Company") is the maker of inexpensive, drug–free, anti-inflammatory medical devices and patches – its primary SIC code is 3845. The Company's wafer thin patches contain an embedded microchip and battery that deliver pulsed electromagnetic energy, a clinically proven and widely accepted anti-inflammatory and pain relief therapy that heretofore has only been possible to obtain from large, facility-based equipment. BioElectronics markets and sells its current products under the brand names ActiPatch®, Allay™ and RecoveryRx™.

The dermal patch delivery system creates a multitude of new product opportunities for chronic and acute inflammatory conditions. The market potential is estimated at $10 billion or 400 million incidents worldwide. The distinctive value proposition of the device is the delivery of drug-free therapy that reduces pain and inflammation and accelerates healing by 30% to 50% when compared with the present standard methods of patient care. The current major applications are:

- Medical Surgeries
- Chronic Wounds
- Oral Surgeries
- Sprains and Strains
- Lower Back Pain
- Chronic Repetitive Stress Injuries, Heel Pain, Carpal Tunnel, Bursitis, etc.

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.

In December 2004, the Company received ISO and CE (European Common Market) certification. In 2005, Health Canada approved ActiPatch® Therapy for the relief of pain in musculoskeletal complaints.

In early 2008, the Company redesigned its product and manufacturing process and established new disease specific products and distinct medical and retail product lines. It also shifted its attention to international sales.

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

NOTE 1- NATURE OF BUSINESS (Continued)

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, Italy, Scandinavia, Saudi Arabia, Japan, Benelux, the Balkans, Austria, 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 BASIS OF PRESENTION

The unaudited financial statements included herein have been prepared by BioElectronics Corporation (the "Company", "we" or "us"), a Maryland corporation without audit, pursuant to the rules and regulations of the Securities Exchange Commission (SEC). The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations.

The year-end balance sheet data were derived from the 2011 annual financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America. Certain reclassifications were made to the prior year financial statement amounts to conform to current year presentation. These financial statements should be read in conjunction with the 2011 unaudited financial statements and accompanying notes.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEVELOPMENT STAGE COMPANY

As defined by ASC Topic 915, "Development Stage Entities", the Company is devoting substantially all of its present efforts to developing its business. Additionally, the Company has not yet commenced one of its planned principal activities, the sales 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $98,815 and $128,000 at September 30, 2012 and December 31, 2011, respectively. Bad debt expense was $98,734 and $98,815 for the three months and nine months ended September 30, 2012, respectively, and $-0- for the three and nine months ended September 30, 2011.

ADVERTISING COSTS

The Company expenses the costs associated with advertising as incurred. Costs incurred to fund the production of advertisements, including Infomercials, are reported as a prepaid expense if the related advertisement has not yet been broadcast. Advertising expenses for the three and nine months ended September 30, 2012 are $2,252 and $6,318, respectively, and are included in other general and administrative expenses in the statements of operations. Advertising expenses for the three and nine months ended September 30, 2011 are $5,078 and $56,554, respectively. Prepaid advertising costs are amortized on a straight-line basis over a one year period beginning on the date the advertisements are aired.

As of September 30, 2012 and December 31, 2011, total advertising costs included in prepaid expenses on the balance sheets were $-0. Total amortization expense included in advertising costs for the nine months ended September 30, 2012 and 2011, and for the period from inception (April 10, 2000) through September 30, 2012, was $-0-, $42,581, and $80,880, 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 30 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. The Company's agreement with customers includes a right of return, but the return history of products is immaterial. No allowance for sales returns is required for the nine months ended September 30, 2012 and 2011. Defective units are replaced at the request of the customer.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and fair value 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.

NOTE 4 – 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 approximately $1,874,000 for the nine months ended September 30, 2012. 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 5 - INVENTORY

The components of inventory consisted of the following as of:

	September 30, 2012	December 31, 2011
Raw materials	$ 453,488	$ 411,232
Prepaid inventory	20,117	52,366
Finished goods	259,756	311,586
	$ 733,361	$ 775,184

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	September 30, 2012	December 31, 2011
Machinery & Equipment	$ 163,129	$ 163,129
Leasehold improvements	6,882	6,882
	170,011	170,011
Less: accumulated depreciation	124,223	112,058
Total property and equipment, net	$ 45,788	$ 57,953

Depreciation expense on property and equipment amounted to $2,737 and $12,165, respectively, for the three and nine months ended September 30, 2012 and $4,714 and $14,142, respectively, for the three and nine months ended September 30, 2011.

NOTE 7 – 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.

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.

NOTE 7 – RELATED PARTY NOTES PAYABLE (CONTINUED)

IBEX Revolver Agreement (continued)

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 and nine months ended September 30, 2012, IBEX converted $-0- of the Revolver's outstanding balance and received zero of the Company's common stock. During the nine months ended September 30, 2011 IBEX converted $96,000 of the Revolver's outstand balance and received 80,000,000 shares of the Company's common stock at a conversion price of $0.0012 per share. The balance of the Revolver as of September 30, 2012 and December 31, 2011 was $1,308,630 and $1,200,727, respectively, net of unamortized discount from beneficial conversion feature of $43,240 and $57,654, respectively.

Amortization of the discount included in interest expense for the three months ended September 30, 2012 and 2011 was $4,804 and for the period from April 10, 2000 (Inception) through September 30, 2012 amounted to $797,742. Future amortization of the discount will be approximately $4,800 per quarter from September 30, 2012 through 2014, unless all or part of the outstanding Revolver balance is extinguished prior to January 1, 2015.

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.

During the three and nine months ended September 30, 2012, the Company borrowed $133,500 and zero, respectively, through additional promissory notes with IBEX. During the three and nine months ended September 30, 2011, the Company borrowed $89,000 and $570,000, respectively.

NOTE 7 – RELATED PARTY NOTES PAYABLE (CONTINUED)

On June 27, 2012, the Company reached an agreement with IBEX to extend the maturity of $345,000 of IBEX convertible notes for one year, as the Company did not have the cash to pay the Notes and both parties wishing to avoid having the Company be in default. In exchange for the extension of the convertible notes, the conversion price was lowered to $.002 a share. The extension of these convertible notes for a reduced conversion price led to a Beneficial Conversion Feature. The amount of this feature will be amortized over the life of the notes as a discount the carrying value of the notes. Amortization of the Feature is included in Interest Expense going forward from the date the notes were extended.

The following table is a summary schedule of the individual IBEX promissory notes issuance date, maturity date, principal balance, accrued interest, and number of shares which the debt can be converted to as of September 30, 2012:

Issuance Dates Ranging from	Maturity Dates Ranging from		Amounts Convertible Principal	Interest	Total	Average Conversion Price/Share	Shares to be Issued
8/1/2009 to 9/30/2012	12/31/2012 to 9/30/2014	8.00%	$ 2,821,753	$ 525,234	$ 3,346,987	0.0040	833,441,221

Total interest expense, including amortization of the discount, incurred on the IBEX Revolver and IBEX convertible promissory notes payable for the three months ended September 30, 2012 and 2011 was $88,776 and $85,198 respectively. For the nine months ended September 30, 2012 and 2011, interest expense was $293,326 and $226,292, respectively.

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. Other related parties consist of Robert Whelan, the son, Janel Zaluski, a daughter of the President of the Company and Mary Whelan, wife 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 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 table above.

NOTE 7 – RELATED PARTY NOTES PAYABLE (CONTINUED)

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 September 30, 2012:

Issuance Dates Ranging from	Maturity Dates Ranging from	Amounts Convertible Principal	Interest	Total	Average Conversion Price/Share	Shares to be Issued	Lender
6/30/2010 to 9/30/2012	11/30/2012 to 9/30/2014	$ 1,079,970	$ 111,817	$ 1,191,787	$ 0.0026	$ 453,372,463	President/Shareholder
11/9/2010 to 12/9/2010	11/30/2012 to 12/31/2012	103,333	16,338	119,671	0.0035	34,238,217	Board Chairman
8/9/2010 to 5/31/2012	12/31/2012 to 5/31/2014	82,095	7,665	89,760	0.0010	90,176,304	Other Related Parties
		$ 1,265,398	$ 135,820	$ 1,401,218	$ 0.0024	577,786,984	

Similar to the IBEX promissory convertible notes, the conversion prices per the terms of the note agreements are based upon the fair market value of the OTC closing price of the Company's stock as of the date of issuance discounted based on the factors previously discussed in the disclosures related to the IBEX Revolver and promissory convertible notes. During the nine months ended September 30, 2012, approximately $527,000 worth of debt was converted into 278,183,086 shares of $.001 par value common stock. During the three months ended September 30, 2012, approximately $142,000 worth of debt was converted into 71,139,000 shares of common stock at a conversion price of $0.002 per share.

During the three months ended September 30, 2012 the Company borrowed $211,568 from the CEO/President of the Company consisting of cash of $101,000 and conversion of accounts payable of $110,568 for reimbursement of expenses and services rendered. During the nine months ended September 30, 2012 the Company borrowed $385,138 from the CEO/President of the Company consisting of cash of $141,000 and conversion of accounts payable of $244,138 for reimbursement of expenses and services rendered. For the three and nine months ended September 30, 2012 the Company borrowed $-0- and $98,500, respectively, from Other Related Parties. The Company borrowed $80,000 and $1,068,541 from the President/CEO of the Company during the three and nine months ended September 30, 2011.

On June 27, 2012, the Company reached an agreement with the holders of the other related parties to extend the maturity of approximately $272,000 of notes for one year, as the Company did not have the cash to pay the Notes and all parties wishing to avoid having the Company be in default. In exchange for the extension of the convertible notes, the conversion price was lowered to $.002 a share. The extension of these convertible notes for a reduced conversion price led to a Beneficial Conversion Feature. The total beneficial conversion feature on these notes, combined with the beneficial conversion feature on the IBEX notes payable was approximately $34,000 upon conversion.

NOTE 7 – RELATED PARTY NOTES PAYABLE (CONTINUED)

Amortization of the discount included in interest expense for the three months ended September 30, 2012 was $4,986. Future amortization of the discount will be approximately $5,000 per quarter from September 30, 2012 through 2014, unless all or part of the outstanding Revolver balance is extinguished prior to expiration of the promissory notes.

Interest expense incurred on the other related party notes payable, including amortization of the discount, for the three and nine months ended September 30, 2012 totaled $33,999 and $89,812, respectively. Interest expense incurred on the other related party notes payable for the three and nine months ended September 30, 2011 totaled $33,999 and $89,812, respectively.

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

2013	$ 3,167,943
2014	1,650,384
2015	1,265,390
	$ 6,083,717

NOTE 8 – LOSS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
Common Stock:	2012	2011	2012	2011
Weighted Average Number of Shares Outstanding - Basic	2,596,114,958	1,703,270,871	2,292,062,613	1,656,167,315
Effect of Dilutive Securities:				
Options and Warrants	-	-	-	-
Weighted Average Number of Shares Outstanding - Diluted	2,596,114,958	1,703,270,871	2,292,062,613	1,656,167,315
Options and Warrants Not Included Above (Antidilutive)				
Nonvested Restricted Share Awards	12,479,710	48,383,058	15,153,724	57,336,020
Options to Purchase Common Stock	35,728,261	24,000,000	26,399,293	1,758,242
Warrants to Purchase Common Stock	-	-	-	-
	48,207,971	72,383,058	41,553,017	59,094,262

NOTE 9 – 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.

NOTE 9 – SHARE BASED COMPENSATION (CONTINUED)

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 audit committee 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 six months ended September 30, 2012:

Stock options	Shares	Weighted-average grant date fair value
Balance at December 31, 2011	24,000,000	$ 0.0050
Granted	55,000,000	0.0029
Vested	(8,000,000)	0.0050
Forfeited	-	-
Balance at September 30, 2012	71,000,000	$ 0.0034

Compensation expense related to the stock options during the three months and nine months ended September 30, 2012 was $12,583 and $32,433, 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 $61,901.

NOTE 9 – SHARE BASED COMPENSATION (CONTINUED)

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 September 30, 2012, and changes during the nine months ended September 30, 2012, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2011	11,333,334	$ 0.0055
Granted	-	-
Vested	(5,333,334)	0.0110
Forfeited	-	-
Balance at September 30, 2012	6,000,000	$ 0.0104

Total compensation cost related to the restricted stock awards granted to employees was $15,134 and $50,127 for the three and nine months ended September 30, 2012.

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 $36,000.

NOTE 9 – SHARE BASED COMPENSATION (CONTINUED)

Nonvested Restricted Share Awards (Continued)

A summary of the status of the Company's nonvested shares granted to Non-employees as of September 30, 2012, and changes during the nine months ended September 30, 2012, is as follows:

Nonvested shares	Shares		Weighted-average grant date fair value
Balance at December 31, 2011	10,133,333	$	0.0181
Granted	-		-
Vested	(5,066,667)		0.0181
Forfeited	(833,333)		0.0181
Balance at September 30, 2012	4,233,333	$	0.0181

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.

Common Stock Issued For Services Rendered

On May 18, 2012 the Company issued 10,000,000 shares of common stock for services rendered valued at $10,000, which was recorded as a part of Investor Relations expense in the accompanying condensed statements of operations for the nine months ended September 30, 2012. These shares were valued at $0.001 per share, which represents the fair value of the services rendered.

On June 25, 2012 the Company issued 40,000,000 shares of common stock for services rendered valued at $100,000, which was recorded as a part of Other General and Administrative expense in the accompanying condensed statements of operations for the nine months ended September 30, 2012. These shares were valued at $0.0025 per share, which represents the fair value of the services rendered.

On June 22, 2012, the Company issued 1,000,000 shares of common stock for services rendered valued at $2,500, which was recorded as a part of Other General and Administrative expense in the accompanying condensed statements of operations for the nine months ended September 30, 2012. These shares were valued at $0.0025 per share, which represents the fair value of the services rendered.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the nine months ended September 30, 2012 because of a significant net operating loss carry-forward of approximately $16.0 million. The net operating losses expire in various years through 2031. A full valuation allowance has been recorded against the deferred tax asset resulting from the benefits associated with the net operating loss carry-forward.

NOTE 11 – FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash, trade and other receivables, cash overdraft, 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 12 – 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 replace by other leases.

The future minimum lease payments as of September 30 for 2012 are $1,221, 2013 is $2,693 and 2014 is $1,346, respectively.

The amount of rental expenses were $22,804 for the three months ended September 30, 2012.

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 13 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 7, 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.

NOTE 13 – RELATED PARTY TRANSACTIONS (CONTINUED)

Sales transactions to eMarkets recognized for the three months ended September 30, 2012 and 2011 include $677 and $980 in sales, respectively and $659 and $393, in costs of goods sold, respectively. Sales transactions to eMarkets recognized for the nine months ended September, 2012 and 2011 include and $1,722 and $214,767 in sales, respectively and $1,676 and $78,027, in costs of goods sold, respectively. The balance due from eMarkets was $26,234 and $24,512 is included in Trade and Other Receivables, Net, on the accompanying balance sheets as of September 30, 2012 and 2011, respectively.

In addition to the related party notes payable with St. Johns LLC, the Company also advanced $30,020 to St. Johns LLC, which is expected to be repaid within twelve months from the balance sheet date and is recorded as Due from Related Party on the accompanying balance sheet as of September 30, 2012.

Included in Accounts Payable is approximately $30,000 due to a related party. The amount is attributable to business-related expenses incurred by the related party that are reimbursable by the Company.

NOTE 14 – CONCENTRATIONS

As of September 30, 2012, approximately 95 percent of trade receivables were from 3 customers. For the three months ended September 30, 2012 approximately 91 percent of sales revenue was from 5 customers. For the nine months ended September 30, 2012 approximately 72 percent of sales revenue was from 4 customers. Sales revenue for the three and nine months ended September 30, 2012 was predominantly from international markets.

NOTE 15 – RESTATEMENT AND IMMATERIAL CORRECTION OF AN ERROR

The beginning retained earnings additional-paid-in capital as of December 31, 2011 and was restated due to errors found by management related to the issuance of shares for services rendered. The restatement resulted in a decrease in the net loss for the three and twelve months ended December 31, 2011 of $12,600, a decrease in Additional Paid-in-Capital of $5,100 and a decrease in Accounts Payable and Accrued Expenses of $7,000. The restatement had no impact to the net loss for the three months and nine months ended September 30, 2012. There was also an immaterial correction made in the current quarter related to an error in the calculation of the fair value of the shares issued for service rendered with compensation expense of $15,000 for the three and six months ended June 30, 2012. The corrected fair value of the services rendered was $2,500, resulting in a reduction in Other General and Administrative Expenses on the accompanying statements of operations of $12,500 for the three and nine months ended September 30, 2012 and a reduction of Additional Paid-in-Capital of $12,500 as of September 30, 2012.