

BIOELECTRONICS CORPORATION (A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

PERIOD FROM APRIL 10, 2000 (INCEPTION) TO DECEMBER 31, 2008

**BIOELECTRONICS CORPORATION (A DEVELOPMENT STAGE COMPANY)
PERIOD FROM APRIL 10, 2000 (INCEPTION) TO DECEMBER 31, 2008**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
BioElectronics Corporation
Frederick, Maryland

We have audited the accompanying balance sheets of BioElectronics Corporation (A Development Stage Company) as of December 31, 2008 and 2007 and the related statements of operations, changes in stockholders' deficiency and cash flows for the three year period ended December 31, 2008 and for the period from April 10, 2000 (Inception) to December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioElectronics Corporation as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the three year period ended December 31, 2008 and for the period from April 10, 2000 (Inception) to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has substantial losses from operations and a working capital deficit which combine to raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also discussed in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Berenfeld Spritzer Shechter & Sheer, LLP
Fort Lauderdale, Florida
February 16, 2010

BioElectronics Corporation (A Development Stage Company)
 Balance Sheets
 December 31, 2008 and 2007

	2008	2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 55,278	\$ 36,299
Accounts receivable, net	68,878	198,260
Inventory	65,092	191,535
Prepaid expenses	5,791	4,278
	195,039	430,372
Total current assets		
Property and equipment	93,502	86,620
Less: accumulated depreciation	(65,342)	(50,243)
	28,160	36,377
Property and equipment, net		
Other assets:		
Loan costs	-	3,125
Security deposits	900	900
	900	4,025
Total other assets		
Total Assets	\$ 224,099	\$ 470,774
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable	\$ 407,151	\$ 393,228
Accrued expenses	258,752	183
Current maturities of notes payable	574,092	847,118
Customer deposits	119,398	-
	1,359,393	1,240,529
Total Current Liabilities		
Long-Term Liabilities:		
Related Party Notes Payable - Net of Current Portion	1,598,479	1,440,165
	1,598,479	1,440,165
Total Long-Term Liabilities		
Total Liabilities	2,957,872	2,680,694
Commitments and Contingencies		
Stockholders' Deficiency:		
Common Stock, Par Value \$.001 Per Share, 750,000,000 Shares Authorized; 266,542,635 and 118,401,595 Shares Issued and Outstanding at December 31, 2008 and 2007, Respectively	266,542	118,401
Additional Paid-in Capital	7,404,197	6,051,982
Deficit accumulated during the development stage	(10,404,513)	(8,380,303)
	(2,733,774)	(2,209,920)
Total Stockholders' Deficiency		
Total Liabilities and Stockholders' Deficiency	\$ 224,099	\$ 470,774

The accompanying notes are an integral part of these financial statements.

BioElectronics Corporation (A Development Stage Company)
 Statements of Operations
 For the Years Ended December 31, 2008, 2007 and 2006
 and for the Period from April 10, 2000 (Inception) to December 31, 2008

	2008	Years ended December 31, 2007	2006	Period from April 10, 2000 (Inception) to December 31, 2008
Sales	\$ 716,755	\$ 603,110	\$ 349,883	\$ 2,305,937
Cost of Goods Sold	<u>508,541</u>	<u>169,921</u>	<u>140,945</u>	<u>1,124,151</u>
Gross Profit	<u>208,214</u>	<u>433,189</u>	<u>208,938</u>	<u>1,181,786</u>
General and Administrative Expenses:				
Depreciation and Amortization	15,099	19,419	21,987	82,134
General and Administrative Expenses	<u>2,025,242</u>	<u>1,798,520</u>	<u>2,722,643</u>	<u>10,101,999</u>
Total General and Administrative Expenses	<u>2,040,341</u>	<u>1,817,939</u>	<u>2,744,630</u>	<u>10,184,133</u>
Loss from Operations	<u>(1,832,127)</u>	<u>(1,384,750)</u>	<u>(2,535,692)</u>	<u>(9,002,347)</u>
Other Income (Expenses):				
Interest Expense	(192,083)	(588,042)	(497,954)	(1,366,314)
Loss on Disposal of Assets	<u>-</u>	<u>(30,262)</u>	<u>(5,590)</u>	<u>(35,852)</u>
Total Other Expense	<u>(192,083)</u>	<u>(618,304)</u>	<u>(503,544)</u>	<u>(1,402,166)</u>
Loss Before Income Taxes	<u>(2,024,210)</u>	<u>(2,003,054)</u>	<u>(3,039,236)</u>	<u>(10,404,513)</u>
Provision for Income Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (2,024,210)</u>	<u>\$ (2,003,054)</u>	<u>\$ (3,039,236)</u>	<u>\$ (10,404,513)</u>
Net Loss Per Share Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>N/A</u>
Weighted Average Number of Shares Outstanding Basic and Diluted	<u>178,826,253</u>	<u>90,906,674</u>	<u>67,542,205</u>	<u>N/A</u>

The accompanying notes are an integral part of these financial statements.

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency
For the Period from April 10, 2000 (Inception) to December 31, 2008

	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	-	-	-	(1,914,053)	(1,914,053)
Fair value of warrants issued in connection with financing arrangements	-	-	542,460	-	542,460
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	3,019,546	(3,338,013)	(255,603)
Net loss	-	-	-	(3,039,236)	(3,039,236)
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	-	-	23,941	-	23,941
Balance at December 31, 2006	75,604,748	75,604	4,234,241	(6,377,249)	(2,067,404)
Net loss	-	-	-	(2,003,054)	(2,003,054)
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
Stock based compensation expense	-	-	14,000	-	14,000
Balance at December 31, 2007	118,401,595	118,401	6,051,982	(8,380,303)	(2,209,920)
Net loss	-	-	-	(2,024,210)	(2,024,210)
Issuance of common stock for services rendered	45,338,500	45,339	355,007	-	400,346
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	\$ 7,404,197	\$ (10,404,513)	\$ (2,733,774)

The accompanying notes are an integral part of these financial statements.

BioElectronics Corporation (A Development Stage Company)
 Statements of Cash Flows
 For the Years Ended December 31, 2008, 2007 and 2006 and for the
 Period from April 10, 2000 (Inception) to December 31, 2008

	2008	Years ended December 31, 2007	2006	Period from April 10, 2000 (Inception) to December 31, 2008
Cash Flows from Operating Activities:				
Net Loss	\$ (2,024,210)	\$ (2,003,054)	(3,039,236)	\$ (10,404,513)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:				
Depreciation of machinery & equipment	15,099	19,419	21,987	83,705
Provision for bad debts	-	12,000	11,640	58,255
Amortization of non-cash debt issuance costs	-	350,589	352,181	725,373
Non-cash stock-based compensation and expenses	400,346	52,700	440,581	1,213,080
Stock based compensation expense	-	14,000	23,941	37,941
Non-cash interest related to convertible notes payable	188,958	205,030	145,774	539,762
Amortization of loan costs	3,125	63,100	63,627	129,852
Increase in related party notes payable for services rendered	247,345	309,181	6,250	562,776
Loss on disposal of property and equipment	-	30,262	5,590	35,852
Changes in Assets and Liabilities				
(Increase) Decrease in:				
Accounts receivable	129,382	(98,760)	(54,274)	(127,131)
inventory	126,443	(128,033)	129,208	(65,092)
Prepaid expenses	(1,512)	-	1,517	(5,790)
Deposits	-	-	6,862	(900)
Increase (Decrease) in:				
Accounts payable	13,923	(148,348)	149,772	407,150
Accrued expenses	260,543	(13,199)	150,807	467,195
Customer deposits	119,398	-	-	119,398
Net Cash Used In Operating Activities	<u>(521,160)</u>	<u>(1,335,113)</u>	<u>(1,583,773)</u>	<u>(6,223,087)</u>
Cash Flows from Investing Activities				
Acquisition of property and equipment	(6,882)	-	(13,550)	(128,729)
Net Cash Used In Investing Activities	<u>(6,882)</u>	<u>-</u>	<u>(13,550)</u>	<u>(128,729)</u>
Cash Flows from Financing Activities				
Proceeds from note payable, net of loan costs of \$10,000	-	-	90,000	1,090,148
Payments on note payable	(100,000)	-	-	(466,219)
Proceeds from related party notes payable	461,371	962,787	1,238,422	3,079,593
Payments on related party notes payable	(12,600)	(10,100)	-	(37,778)
Payments of capital lease obligations	-	-	(5,413)	(9,987)
Proceeds from issuance of common stock	198,250	290,000	80,000	2,751,337
Net Cash Provided by Financing Activities	<u>547,021</u>	<u>1,242,687</u>	<u>1,403,009</u>	<u>6,407,094</u>
Net Increase (Decrease) in Cash	18,979	(92,426)	(194,314)	55,278
Cash - Beginning of Year	36,299	128,725	323,039	-
Cash - End of Year	<u>\$ 55,278</u>	<u>\$ 36,299</u>	<u>128,725</u>	<u>\$ 55,278</u>
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the years for:				
Interest	\$ -	\$ -	\$ -	\$ 66,632
Income taxes	\$ -	\$ -	\$ -	\$ -
Supplemental Schedule of Non-Cash Investing and Financing Activities:				
Conversion of debt into common stock	\$ 967,658	\$ 1,248,119	\$ 500,000	\$ -
Equipment purchases financed through capital leases and notes payable	\$ -	\$ -	\$ -	\$ 9,986

The accompanying notes are an integral part of these financial statements.

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 financial planning, raising capital, establishing sources of material supply and manufacturing subcontractors, recruiting and training sales personnel and establishing a market presence for its product.

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, Australia, the United Kingdom, Canada, Columbia, Mexico and Italy.

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.

Effective September 30, 2009, the Financial Accounting Standards Board ("FASB") established The FASB Accounting Standards Codification ("ASC") (formerly Statement of Financial Accounting Standards ("SFAS") No. 162, "The Hierarchy of Generally Accepted Accounting Principles") as the source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Except for newly issued standards that have not been codified, references to codified literature have been updated to reflect this change.

DEVELOPMENT STAGE COMPANY

As defined by ASC Topic 915, "Development Stage Entities" (formerly SFAS 7, "Accounting and Reposting by Development Stage Enterprises"), the Company is devoting substantially all of its present efforts to developing its business. 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.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to significant concentration of credit risk, consist primarily of cash and cash equivalents. From time to time the Company may have bank deposits in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at 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 and options, allowance for doubtful accounts receivables and the utilization of deferred tax assets. Actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of accounts receivable balances and historical loss rate. The allowance for doubtful accounts was \$33,791 at both December 31, 2008 and 2007. Bad debt expense for the years ended December 31, 2008, 2007 and 2006 was \$17,095, \$13,970 and \$17,621, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

Inventories consist of raw materials, supplies and finished goods. All inventories are valued at lower of average cost or market determined under the first-in, first-out method. The Company periodically reviews inventories and items considered outdated or obsolete are reduced to their estimated net realizable value.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as prescribed by ASC Topic 360-10-05, "Impairment or Disposal of Long-Lived Assets (formerly SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets"). If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. No impairment losses were recognized for the years ended December 31, 2008, 2007 or 2006.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. The Company provides for depreciation expense on a straight line basis over each asset's estimated useful life.

ASSET CLASSIFICATION	USEFUL LIFE
Machinery	5 years
Equipment	5 years
Leasehold Improvements	5 years

Additions to property and equipment and major improvements are capitalized. Gains and losses on dispositions are recognized immediately. Maintenance, repairs and minor replacements are expensed as incurred. Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$15,099, \$19,419, and \$21,987, 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. The Company's agreement with customers includes a right of return. An allowance for returns has been provided for the years ended December 31, 2008, 2007 and 2006. Defective units are replaced at the request of the customer.

DEFERRED FINANCING COSTS

Costs incurred to obtain financing have been capitalized and are being amortized using the effective interest method over the life of the note.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company provides for deferred taxes in accordance with ASC Topic 740, "Income Taxes" (formerly SFAS No. 109, "Accounting for Income Taxes"), which requires an asset and liability approach for measuring deferred taxes and liabilities due to temporary differences existing at year-end using currently enacted rates (See Note 13). A valuation allowance is provided when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company has adopted the provision within ASC Topic 740 for uncertain tax positions, which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. The tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" of being sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the "more-likely-than-not" threshold, the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement with the taxing authority, is recorded. The provisions for uncertain tax positions became effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings.

RESEARCH AND DEVELOPMENT

Research and development is charged to operations as incurred.

SHIPPING AND HANDLING FREIGHT FEES AND COSTS

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as revenue. The costs incurred by the Company for shipping and handling are reported as part of cost of goods sold. The Company includes freight costs in cost of goods sold.

COMPENSATED ABSENCES

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

ADVERTISING COSTS

The Company expenses the costs associated with advertising as incurred. Advertising expenses for the years ended December 31, 2008, 2007 and 2006 are included in general and administrative expenses in the statements of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of ASC Topic 718, "Compensation – Stock Compensation," (formerly SFAS No. 123R "Stock Based Payment") requiring that compensation cost relating to stock based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, the Company accounted for stock based compensation as permitted under ASC Topic 718, using the intrinsic value method. The fair value of options that were not vested as of January 1, 2006 was calculated using the Black-Scholes method and those amounts were recorded as stock-based compensation prospectively over the remaining service period.

NET LOSS PER SHARE

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, "Earnings Per Share" (formerly SFAS No. 128, "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, 2008, 2007 and 2006 the Company reported net losses, as a result there is no difference between basic and diluted shares for each of the year ends.

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 equaling either the market value of the shares issued or the value of consideration received, whichever is more readily determinable. The majority of the non-cash consideration pertains to services rendered by consultants and others and has been valued at the market value of the shares on the dates 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" (formerly EITF No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* and EITF No. 00-18, *Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company adopted ASC Topic 820-10, "Fair Value Measurements and Disclosures" (formerly SFAS No. 157, "Fair Value Measurements"), 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.

RECLASSIFICATIONS

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

ASC Topic 470-20, "Debt with Conversions and Other Options" (FASB Staff Position ("FSP"), "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)", requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. ASC Topic 470-20 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FASB 14-1 is not expected to have a material impact on the Company's financial position and results of operations.

ASC Topic 350, "Intangibles – Goodwill and Other" (formerly FSP 142-3, "Determination of the Useful Life of Intangible Assets"), amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible assets. ASC Topic 350 is effective for fiscal years beginning after December 15, 2008 and is not expected to have a material impact on the Company's financial position and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASC Topic 815, "Derivatives and Hedging" (formerly SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities") amends and expands the disclosure requirements derivative instruments and hedging activities. It requires enhanced disclosure about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company as of January 1, 2009. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's consolidated financial position and results of operations.

ASC Topic 810 "Consolidation" (formerly SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" and SFAS No. 141, "Business Combinations") changes both (1) the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings and (2) the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development costs, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Additionally, the accounting for both increases and decreases in a parent's controlling ownership interest. This guidance is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company does not expect any impact to the Company's financial statements.

ASC Topic 825-10, "Fair Value Instruments – Fair Value Options" (formerly SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB No. 115"), permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. At January 1, 2008, the Company did not elect the fair value option as this resulted in no impact to the Company's financial statements.

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 and it has a working capital deficit which raises substantial doubt about its ability to continue as a going concern. The Company sustained a net loss of \$2,024,210 for the year ended December 31, 2008 and it has a working capital deficit of approximately \$1,164,354 at December 31, 2008. The Company is currently looking for 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, FDA approval and to maintain operations and alleviate doubt about its ability to continue as a going concern.

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 4 - INVENTORY

The components of inventory as of December 31, 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 21,662	\$ 159,210
Finished goods	43,430	32,325
	<u>\$ 65,092</u>	<u>\$ 191,535</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2008</u>	<u>2007</u>
Machinery & Equipment	\$ 86,620	\$ 86,620
Leasehold improvements	6,882	-
	93,502	86,620
Less: accumulated depreciation	(65,342)	(50,243)
Total property and equipment, net	<u>\$ 28,160</u>	<u>\$ 36,377</u>

NOTE 6 – NOTES PAYABLE

Senior Secured Convertible Notes

On December 8, 2005, the Company entered into a Subscription Agreement wherein the Subscribers ("the Investors") agreed to purchase up to \$1 million of 8% promissory notes of the Company, convertible into shares of the Company's common stock at a per share convertible price set forth in the Agreement, and share purchase warrants to purchase shares of the Company's common stock. On the Initial Closing Date, the Investors purchased a total of \$750,000 of Senior Secured Convertible Notes ("the Initial Closing Notes").

The Investors also agreed to purchase an additional \$250,000 ("the Second Closing Purchase Price") of Notes (the "Additional Notes") on the Second Closing Date, which was defined as the third business day after the Actual Effective Date of the Registration Statement, which is described below. Both the Initial Closing Notes and the Additional Notes bear interest at a fixed rate of 8% per annum, payable monthly. The Initial Closing Notes and the Additional Notes were initially convertible into 3,000,000 shares and 1,000,000 shares, respectively, of the Company's common stock at the lesser of (a) the Fixed Conversion Price of \$0.25 per share, or (b) 85% of the Volume Weighted Average Price ("the VWAP") for the 10 trading days preceding conversion. The Notes are collateralized by a security interest in substantially all of the Company's assets.

NOTE 6 – NOTES PAYABLE (CONTINUED)

The Company issued Class A share purchase warrants along with the Initial Closing Notes. One Class A warrant was issued to each Investor for each common stock share which would be issued to the Investor assuming the complete conversion of the Notes on such closing date at the conversion price in effect at that date (for a total 3,000,000 warrants). The warrant exercise price was equal to 120% of the closing bid price on the Initial Closing Date for the last trading day preceding the Initial Closing Date, not to exceed \$0.50 per share. The Class A warrants were exercisable until 5 years after each closing date.

The Company also issued Class B share purchase warrants to the Investors. An aggregate of 750,000 Class B warrants were issued to the Investors on the Initial Closing Date, and an aggregate of 250,000 Class B warrants were to be issued to the Investors on the Second Closing Date. The Company ultimately issued a total of 1,000,000 Class B warrants to the Investors. The warrant exercise price for the Class B warrants was \$0.55 per share. The Class B warrants were to be exercisable until the Registration Statement was effective, as described below, for 180 days.

The Subscription Agreement contained registration rights that were granted to the holders of the Company's common stock issued upon note conversion. The registration rights contained a provision wherein a Registration Statement was to be filed with the U.S. Securities and Exchange Commission ("SEC") within 45 days after the Initial Closing Date, and the Registration Statement had to be declared effective not later than 75 days after the Initial Closing Date, or within 115 days if there was an SEC review. Failure to comply with these dates would constitute a Non-Registration Event, which would make all principal and accrued interest on the notes become immediately due and payable, under which the Investors could assess, as Liquidated Damages, an amount calculated on a daily basis at a rate of 2% for each 30 days of the Purchase Price of the Notes remaining unconverted and purchase price of Shares issued upon conversion of the Notes. The Liquidated Damages, at the option of the Company, may be paid in cash or additional shares of its common stock. Also, the interest rate on the Notes would increase to a Default Rate of 15% per annum until the Registration Statement was filed.

The Company filed a Registration Statement on February 13, 2006 but the statement was not declared effective within 75 days of the Initial Closing Date, therefore a Non-Registration Event was asserted by the Investors. As a result, the Investors allowed the Company to amend the Subscription Agreement on June 16, 2006 ("the June 16, 2006 Modification and Amendment Agreement") in which the Company was permitted to file an amended Registration Statement no later than June 16, 2006. Due to the Non-Registration Event, liquidated damages were accrued through June 16, 2006, and were payable in the form of Notes. Additionally, the Notes Fixed Conversion Price was changed from \$0.25 to \$0.18 per share. The Company recorded liquidated damages of \$76,500 in 2006, and issued 443,000 Class B Warrants to the Investors. In the Modification and Amendment Agreement, the Investors agreed to accelerate a funding of an aggregate of \$100,000 of the Second Closing Purchase Price ("Interim Funding"). The balance of the Second Closing Purchase Price was to be funded on the Second Closing Date pursuant to the Subscription Agreement. The Investors also agreed to waive additional Liquidated Damages payable in connection with the initial 60 day period following the Closing Date of the Interim Funding.

On June 16, 2006, the Registration Statement was not declared effective, and it was withdrawn by the Company on July 13, 2006. As a result, the Company entered into a second Modification and Amendment agreement on August 14, 2006, under which the Company agreed to file another Registration Statement no later than August 14, 2006. The second Modification and Amendment agreement resulted in the purchase by the Investors of \$100,000 of Notes ("the Interim Funding Notes") under the Interim Funding provisions of the June 16, 2006 Modification and Amendment Agreement. The investors also agreed to waive the accrual of interest on liquidated damages for a period up to sixty days until October 14, 2006. If the Registration Statement was not filed and not

NOTE 6 – NOTES PAYABLE (CONTINUED)

declared effective by this date, interest on the liquidated damages would begin to accrue until the Registration Statement was declared effective.

The Registration Statement was filed on August 14, 2006, but was not declared effective on October 14, 2006. Therefore, interest on the Liquidated Damages of \$3,507 was accrued by the Company from October 14, 2006 to December 31, 2006, and was payable in the form of Notes.

During the year ended December 31, 2007, the Company issued 1,577,652 shares of the Company's common stock at conversion prices ranging from \$.06 to \$.18 per share in complete satisfaction of an Investor's convertible promissory notes. The principal amount of the notes, Liquidated Damages and accrued interest totaled \$133,749. In addition, the remaining Investors converted Notes, Liquidated Damages and accrued interest totaling \$175,070, into 2,654,576 shares of the Company's common stock at conversion prices ranging from \$.06 to \$.07 per share. At December 31, 2007, the balance of the Notes, Liquidated Damages and accrued interest was \$847,118.

On May 28, 2008, the Company entered into a third amendment of the Subscription Agreement, under which the Company immediately converted \$50,000 (total conversion of \$100,000) of the amounts owed to the two remaining investors, at a conversion price of \$.025 into 2,000,000 (4,000,000 total) shares of the Company's common stock. The fixed conversion price for the remaining face amount of the Notes and Additional Notes was changed to \$.06 per share. In addition, commencing 76 days after the date of the third amendment, August 11, 2008, the Company began making amortizing payments of \$20,000 monthly towards the outstanding amounts due on the Notes until the Notes were repaid in full, whether by the payment of cash or by conversion at the Company's election. The conversion rate for the \$20,000 payment amounts was to be calculated on the lesser of (a) the Fixed Conversion Price of \$.06 per share, or (b) 85% of the VWAP for the 10 trading days preceding the payment date. During the year ended December 31, 2008, the Company paid five monthly \$20,000 amortizing payments (\$100,000 total) towards the balance of the Notes. In addition, the Company issued 9,150,331 shares of the Company's common stock at conversion prices ranging from \$.03 to \$.04 per share in conversion of Notes, Liquidated Damages and accrued interest totaling \$240,308. At December 31, 2008, the balance of the Notes, Liquidated Damages and accrued interest were \$574,092.

As required by ASC Topic 815, Accounting for Derivative Instruments and Hedging Activities, a discount of \$731,293 was recorded against the face amount of the Notes that has been amortized over the two year term of the notes to their maturity date. The fair value of the warrants issued of \$731,293 was calculated using the Black Scholes option pricing model based on the following assumptions: (1) risk free interest rate of 4.21%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 40%; and (4) an expected life of the warrants of 5 years. Additionally, the proceeds were allocated between the notes and warrants using the relative fair value method. During the years ended December 31, 2008, 2007 and 2006, amortization of the discount as interest expense was \$0, \$350,589 and \$352,181, respectively.

The following table summarizes the activity of the Senior Secured Convertible Notes from December 31, 2005 through December 31, 2008:

	<u>Senior Secured Convertible Notes</u>
Balance, December 31, 2005	\$ 750,000
Proceeds from notes payable	100,000
Liquidated damages	76,500
Accrual of interest	110,965
Conversion of notes payable	-

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 6 – NOTES PAYABLE (CONTINUED)

Balance, December 31, 2006	1,037,465
Accrual of interest	117,772
Conversion of notes payable	<u>(308,119)</u>
Balance, December 31, 2007	847,118
Accrual of interest	67,282
Repayments of notes payable	(100,000)
Conversion of notes payable	<u>(240,308)</u>
Balance, December 31, 2008	<u>\$ 574,092</u>

Maturities of notes payable at December 31, 2008 are as follows:

2009	\$ 574,092
2010	-
2011	-
2012	-
2013	-
Thereafter	<u>-</u>
Total	<u>\$ 574,092</u>

Interest expense incurred on the above notes, which included amortization of the note discount, for the years ended December 31, 2008, 2007 and 2006 was \$67,283, \$468,361 and \$463,146, respectively.

NOTE 7 – RELATED PARTY NOTES PAYABLE

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 Revolver is convertible at various conversion prices based on the VWAP for the 10 trading days preceding the date of conversion. IBEX, LLC is a limited liability company, whose President is the daughter of the President of the Company.

During the year ended December 31, 2007, IBEX converted \$910,000 of the Revolver outstanding balance and received 26,000,000 shares of the Company’s common stock at conversion prices ranging from \$.02 to \$.10 per share. At December 31, 2007, the balance of the Revolver was \$1,078,845.

During the year ended December 31, 2008, IBEX converted \$722,400 of the Revolver outstanding balance and received 57,000,000 shares of the Company’s common stock at conversion prices ranging from less than \$.01 to \$.02 per share. At December 31, 2008, the balance of the Revolver was \$1,099,722.

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 7 – RELATED PARTY NOTES PAYABLE (CONTINUED)

The Company has entered into related party loans with various stockholders of the Company. The loans are interest-bearing at rates consisting of prime plus 2.0% (7.00% at December 31, 2008 and 9.75% at December 31, 2007) and stated rates at 8% with no stated maturity dates. The amounts owed as of December 31, 2008 and 2007 were \$498,757 and \$361,320, respectively.

Maturities of notes payable at December 31, 2008 are:

2009	\$	-
2010		-
2011		-
2012		-
2013		-
Thereafter		<u>1,598,479</u>
Total	\$	<u>1,598,479</u>

Interest expense incurred on the above notes for the years ended December 31, 2008, 2007 and 2006 was \$124,800, \$119,682 and \$74,913, respectively.

NOTE 8 – LOSS PER SHARE

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

Common Stock:	<u>2008</u>	<u>2007</u>	<u>2006</u>
Weighted average number of shares outstanding – basic	178,826,253	90,906,674	67,542,205
Effect of dilutive securities:			
Options and Warrants	<u>-</u>	<u>-</u>	<u>-</u>
Weighted average number of shares outstanding – diluted	<u>178,826,253</u>	<u>90,906,674</u>	<u>67,542,205</u>
Options and Warrants not included above (anti-dilutive)			
Options to purchase common stock	350,000	350,000	350,000
Warrants to purchase common stock	<u>4,844,444</u>	<u>5,144,444</u>	<u>8,723,944</u>
	<u>5,194,444</u>	<u>5,494,444</u>	<u>9,073,944</u>

NOTE 9 - STOCK OPTION PLANS/STOCK 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 reserves 10 million shares of common stock for issuance. The options may be incentive, nonqualified or stock appreciation rights.

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

On exercise of a stock appreciation right, the holder may receive shares of common stock and cash equal to the excess of the fair market value of the common stock at the date of exercise over the option price. Stock appreciation rights may be exercised five years from the date of grant. As of December 31, 2008 no stock appreciation rights have been granted.

The following table sets forth options, granted, cancelled, forfeited and outstanding:

	Number of Shares	Aggregate Grant Date Fair Value	Weighted Average Exercise Price
December 31, 2005	5,885,000	\$ 979,957	\$0.30
Granted	-	-	-
Exercised	-	-	-
Forfeited / Canceled	(5,535,000)	(937,957)	\$0.42
Outstanding, December 31, 2006	350,000	42,000	\$0.30
Granted	-	-	-
Exercised	-	-	-
Forfeited / Canceled	-	-	-
Outstanding, December 31, 2007	350,000	42,000	\$0.30
Granted	-	-	-
Exercised	-	-	-
Forfeited / Canceled	-	-	-
Outstanding, December 31, 2008	350,000	\$42,000	\$0.30

Summary information about the Company's stock options outstanding at December 31, 2008:

Exercise Price	Options Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$.30	350,000	2.0	\$.30	350,000	\$.30

NOTE 9 - STOCK OPTION PLANS/STOCK BASED COMPENSATION (CONTINUED)

As of December 31, 2008, and 2007 the Company had 350,000 options exercisable and 4,115,000 available for future grant.

The Company adopted the provisions of SFAS No. 123R in the beginning of 2006. SFAS No. 123R requires that compensation cost relating to share-based payment transactions be recognized as an expense over the service period or vesting term. Accordingly, compensation costs recognized for the stock option plan for the years ended December 31, 2008, 2007 and 2006 totaled \$0, \$14,000 and \$23,941, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted are:

Assumptions

Risk-free interest rate	3.64%
Dividend yield	0%
Expected life of option grants	5 years
Expected stock price volatility	40%

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

NOTE 10 - WARRANTS

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

On December 8, 2005, the Company issued \$750,000 of Senior Secured Convertible Notes and agreed to issue an additional \$250,000 of Notes (see Note 6). In connection with this financing, the Company issued warrants ("Investor Warrants") to purchase a total of 3,000,000 shares of the Company's common stock, and issued additional warrants ("Broker Warrants") to a broker to purchase 300,000 shares of the Company's common stock.

On August 14, 2006, the Company issued an additional \$100,000 of Senior Secured Convertible Notes (see Note 6). In connection with this financing, the Company issued warrants ("Additional Investor Warrants") to purchase a total of 1,000,000 shares of the Company's common stock, and issued additional warrants to a broker to purchase 69,444 shares of the Company's common stock. In addition, the Company accrued liquidated damages of \$76,500 due to the Non-Registration Event (see Note 6). In connection with these liquidated damages, the Company issued warrants to purchase a total of 443,000 shares of the Company's common stock.

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 10 – WARRANTS (CONTINUED)

During the years ended December 31, 2008, 2007 and 2006, no warrants were exercised. However, during the years ended December 31, 2008 and 2007, the Broker Warrants to purchase 300,000 shares of the Company's common stock expired and 3,579,500 of the PPM Warrants expired.

The warrants did not contain a beneficial exchange feature at the date of the agreement. As required by ASC Topic 815, Accounting for Derivative Instruments and Hedging Activities, the warrants were valued at \$731,293 and this value was recorded as a discount against the face amount of the Notes that has been amortized over the two year term of the notes to their maturity date. The fair value of the warrants issued of \$731,293 was calculated using the Black Scholes option pricing model based on the following assumptions: (1) risk free interest rate of 4.21%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of the Company's common stock of 40%; and (4) an expected life of the warrants of 5 years. Additionally, the proceeds were allocated between the notes and warrants using the relative fair value method. During the years ended December 31, 2008, 2007 and 2006, amortization of the discount as interest expense was \$0, \$350,589 and \$352,181, respectively.

The exercise price of the investor warrants are subject to adjustment in certain events, including split-ups or combinations of common stock, dividends payable in common stock, and the issuance of rights to purchase additional shares of common stock or to receive other securities or rights convertible into or entitling the holder to receive additional shares of common stock without payment of any consideration. The shares underlying the warrants are subject to a registration rights agreement. The outstanding warrants provide the holder with the right to convert one warrant for one share of the Company's common stock at the stated exercise price. The majority of the outstanding warrants have a cashless exercise feature.

The Investor Warrants, Additional Investor Warrants, and Broker Warrants are redeemable by the Company at a price of \$.01 per investor warrant at any time prior to their exercise or expiration upon 30 days written notice provided that the closing stock price for the Common stock for at least thirty days has been \$1.00 per share and the shares underlying the warrants have been registered.

At December 31, 2008 and 2007, 4,844,444 and 5,144,444 warrants were outstanding, respectively.

The following table summarizes information for warrants outstanding and exercisable at December 31, 2008:

Exercise Price	Number	Original Term (Years)	Options outstanding weighted average remaining life in years
\$0.33	332,000	5	1.25
\$0.468	3,000,000	5	1.9
\$0.468	1,000,000	5	1.9
\$0.468	443,000	5	2.67
\$0.0012	69,444	3	0.67

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 10 – WARRANTS (CONTINUED)

The following table summarizes information for warrants outstanding and exercisable at December 31, 2007:

Exercise Price	Number	Original Term (Years)	Options outstanding weighted average remaining life in years
\$0.33	332,000	5	2.25
\$0.468	3,000,000	5	2.9
\$0.468	1,000,000	5	2.9
\$0.39	300,000	3	0.9
\$0.468	443,000	5	3.67
\$0.0012	69,444	3	1.67

The following schedule summarizes pertinent information with regard to the stock warrants for the years ended December 31:

	<u>2008</u>		<u>2007</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	<u>Outstanding</u>	<u>Price</u>	<u>Outstanding</u>	<u>Price</u>
Beginning of year	5,144,444	\$ 0.448	8,723,944	\$ 0.468
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	<u>(300,000)</u>	<u>0.39</u>	<u>(3,579,500)</u>	<u>0.496</u>
End of year	<u>4,844,444</u>	<u>\$ 0.452</u>	<u>5,144,444</u>	<u>\$ 0.448</u>
Exercisable	<u>4,844,444</u>	<u>\$ 0.452</u>	<u>5,144,444</u>	<u>\$ 0.448</u>

NOTE 11 - VENDOR AND CUSTOMER CONCENTRATION

During the year ended December 31, 2008, one vendor accounted for more than 10% of the Company's total purchases or \$50,985. Three customers, new to the Company, accounted for 51% (17%, 11% and 23%, respectively) of total revenues.

For the year ended December 31, 2007, the Company had three vendors individually accounting for more than 10% of the Company's purchases, \$24,600, \$29,600 and \$11,900, totaling 66.39% of total purchases. A new customer to the Company accounted for 20% of total revenues.

NOTE 11 - VENDOR AND CUSTOMER CONCENTRATION (CONTINUED)

The Company had two vendors during the year ended December 31, 2006, who each accounted for more than 10% of the Company's total purchases, \$41,500 and \$77,700. Two customers accounted for 49% (24% and 25%, respectively) of total revenues for 2006.

The Company has never relied exclusively upon any of its vendors for on-going purchases, the components of the Company's products are all readily available commodities and the Company has multiple sources for procuring its inventory.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases office space under various non-cancelable operating leases expiring in various years through 2011. In the normal course of business, operating leases are generally renewed or replaced by other leases. The future minimum lease payments as of December 31 for each of the next five years and in the aggregate, are as follows:

	PAYMENTS DUE BY PERIOD					
	2009	2010	2011	2012	2013 and Thereafter	Total
Operating leases	<u>\$56,502</u>	<u>\$ 58,202</u>	<u>\$49,710</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$164,414</u>

LITIGATION

Legal Matters

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 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

William Lyons v. BioElectronics Corporation

In 2005, a lawsuit was filed against the Company by William Lyons for alleged breach of contract and conversion claims associated with fees for services provided to the Company. Mr. Lyons alleged that Andrew Whelan, the president of the Company, the Company, and PAW II, a Maryland limited liability company, (collectively, “the Defendants”) reached an agreement to convey stock to Mr. Lyons. The defendants deny that any such agreement was in place or that Mr. Lyons had the right to enforce such an agreement.

On May 29, 2009, through binding arbitration, Mr. Lyons was awarded approximately \$1.2 million for his claims. Subsequently, on June 25, 2009 the Company filed, in the Circuit Court of Frederick County, Maryland, a Petition to Vacate Arbitration Award issued by the arbitrator. The Motion was denied by the Court on December 30, 2009.

On January 14, 2010, the Court entered Judgment in favor of Mr. Lyons and against the Defendants jointly and severally in the amount of \$1,217,919. The matter is now on appeal in the Maryland Court of Special Appeals.

As of the date of this filing, the Court of Special Appeals has not ruled on the Appeal. However, the Defendants intend to pursue the appeal toward either settlement or reversal. It is management’s opinion that, the court’s decision will be reversed on appeal or the amount of damages will be reduced because the arbitrator used information beyond the evidence to reach his verdict. Management’s position is also that any Judgment against the Corporation is improper because Mr. Whelan and the other Board members present had no authority to make this agreement on behalf of the Company. If the claims are not vacated by the Court, the Board of Directors will pursue collection of the damages from the Directors who participated in the action.

At this time, the Company cannot accurately estimate actual damages to the claimants since the appeal is still pending. As a result of all the uncertainties, the outcome cannot be reasonably determined at this time and the Company is unable to estimate the loss, if any, in accordance with ASC Topic 450 “Contingencies” (formerly SFAS No. 5, “Accounting for Contingencies”).

NOTE 13 – INCOME TAXES

Income tax expense reflected in the states of operations for the years ended December 31, 2008, 2007 and 2006 consists of:

	YEAR ENDED DECEMBER 31,		
	2008	2007	2006
Current tax expense:			
U.S. federal	\$ -	\$ -	\$ -
State and local	-	-	1,600
	-	-	1,600
Deferred tax expense:			
U.S. federal	\$ -	\$ -	\$ -
State and local	-	-	-
	-	-	-
Total income tax expense	\$ -	\$ -	\$ 1,600

BioElectronics Corporation (A Development Stage Company)
Notes to Financial Statements

NOTE 13 – INCOME TAXES (CONTINUED)

The difference between total “expected” income tax expense (computed by applying the U.S. federal corporate income tax rate of 35% to income before income taxes) for the years ended December 31, 2008, 2007 and 2006 and the reported income tax expenses is as follows:

	YEAR ENDED DECEMBER 31,		
	2008	2007	2006
Federal income taxes at statutory tax rates	\$ (708,600)	\$ (701,552)	\$ (1,064,188)
State income taxes, net of related federal benefit	(156,857)	(67,149)	(107,946)
Change in valuation allowance	798,701	583,680	947,343
Nondeductible expenses	66,756	185,021	226,393
Total income tax expense	\$ -	\$ -	\$ 1,600

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2008, 2007 and 2006 are presented below:

	YEAR ENDED DECEMBER 31,		
	2008	2007	2006
Deferred tax assets – current:			
Allowance for doubtful accounts	\$ 13,639	\$ 13,364	\$ 8,701
Charitable contributions	2,502	2,452	1,068
Accrued expenses	104,438	-	-
Deferred tax assets – current	120,579	15,816	9,769
Less: Valuation allowance	(120,579)	(15,816)	(9,769)
Net deferred tax assets – current	-	-	-
Deferred tax assets - non- current:			
Net operating loss carryforwards	1,473,691	699,355	-
Capitalized start-up expenses	2,052,868	2,133,266	2,254,989
Deferred tax assets – non-	3,526,559	2,832,621	2,254,989
Less: Valuation allowance	(3,526,559)	(2,832,621)	(2,254,989)
Net deferred tax assets – non-current	-	-	-
Total net deferred tax asset	\$ -	\$ -	\$ -

As of December 31, 2008 and 2007, the Company had net operating losses of approximately \$3.7 million and \$1.8 million, respectively, for federal and state income tax purposes that can be carried forward for up to twenty years and deducted against future taxable income. The net operation losses expire in various years through 2028.

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. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on all of the available evidence, the Company’s managements believes 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 December 31, 2008, 2007 and 2006 and that full valuation allowance is needed to reduce the net deferred tax asset to \$0 for each year. The valuation allowance at December 31, 2008, 2007 and 2006 was \$3.6 million, \$2.8 million and \$2.3 million, respectively. The increase in the valuation allowance was approximately \$800,000 for the year ended December 31, 2008 and \$500,000 for the year ended December 31, 1007, primarily due to the operating losses of the Company.

NOTE 14 – SUBSEQUENT EVENTS

During 2009, the Company's focus has been on obtaining additional domestic and international distribution channels and completing additional clinical trials, eliminating debt and strengthening the balance sheet. The primary motivation for continued clinical trials is to obtain additional FDA approved therapeutic indications for existing and future products and to facilitate faster diffusion of the Company's medical product line by the medical community. Securing FDA approval is central to market entry and product acceptance.